



City of Atlanta Discussion with Audit Committee

Audit plan and strategy for the year ending June 30, 2021

June 3, 2021

Our commitment to you

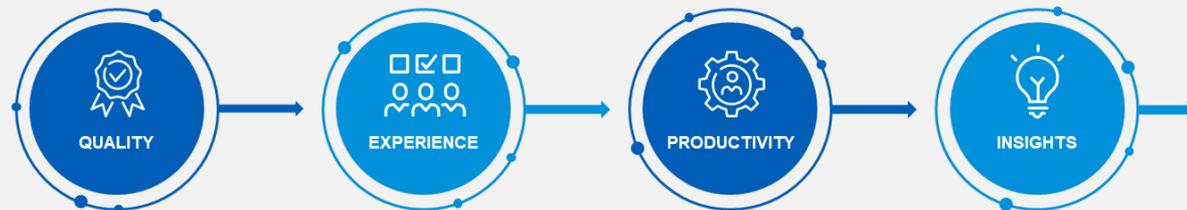


Delivering a better audit experience drives us.

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 City of Atlanta by focusing on:



Executive summary

2021 AUDIT PLAN

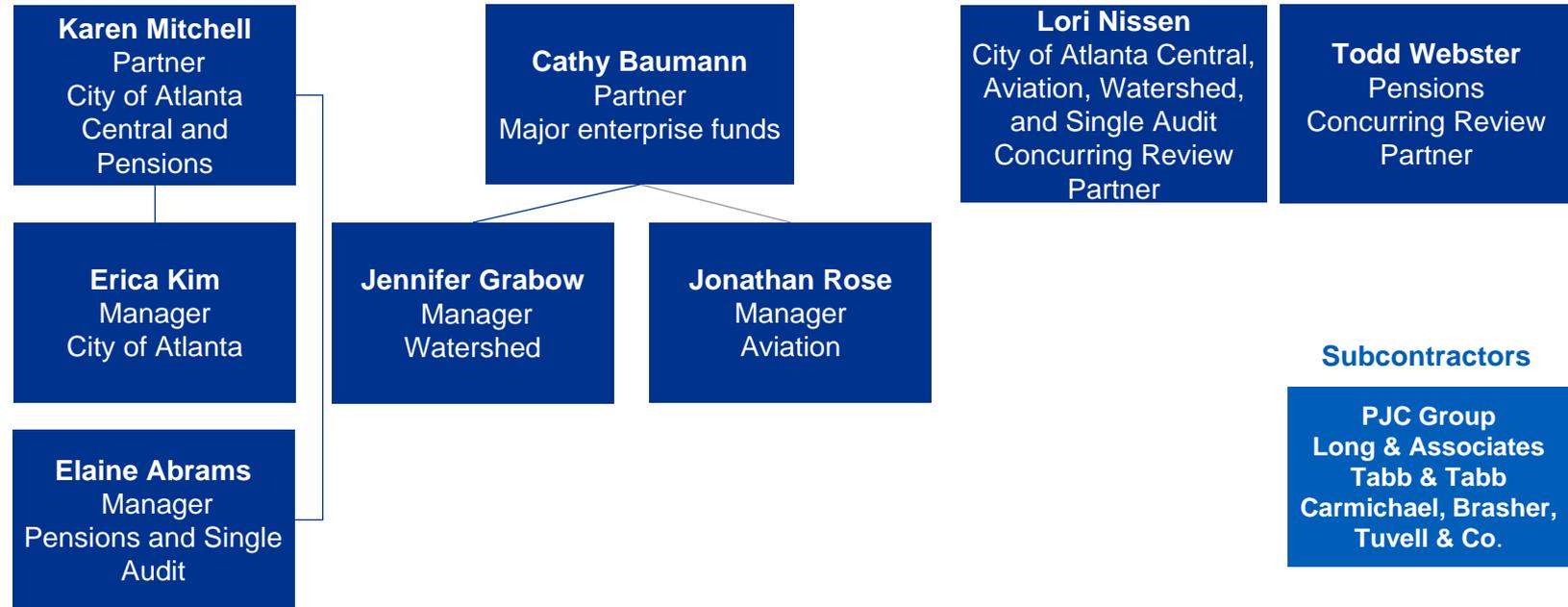


A fresh look: Updates to our audit plan

New risks & key changes to the audit

| COVID-19 / Remote Work related audit risks | Description |
|---|---|
| Continued remote work environment | The City and KPMG has been in remote work environment since the COVID-19 pandemic outbreak. It is expected that we will continue to be in remote environment for FY2021 audit, which is consistent with the prior year audit, however, we established effective communication method with virtual software tools with which we do not expect any significant challenge. |
| Others | There was not significant impact |
| Other significant audit risks | Description |
| Management override of controls | See page 13 for the detail |
| Assumptions in the estimate of the Net Pension Liability and underlying census data (Pension Plans) | See page 13 for the detail |
| Benefit payments (Pension Plans) | See page 13 for the detail |
| Other significant changes that affect our plan | Description |
| Implementation of Accounting Standard | Adoption of GASB No. 84, <i>Fiduciary Activities</i> |

Client service team



Other KPMG Specialists

David Stark
Tax Specialist

Azhar Hassan
IT Specialist

Todd Peterson
Actuarial Specialist

Bryan Thomas
Valuation Specialists

Jenny Andrzejewski
Risk Management
Specialist

Rahul Parekh
Data & Analytics
Specialist

Glen Moyers
Forensic Specialist

An intentional plan to enhance your experience: 2020 efforts

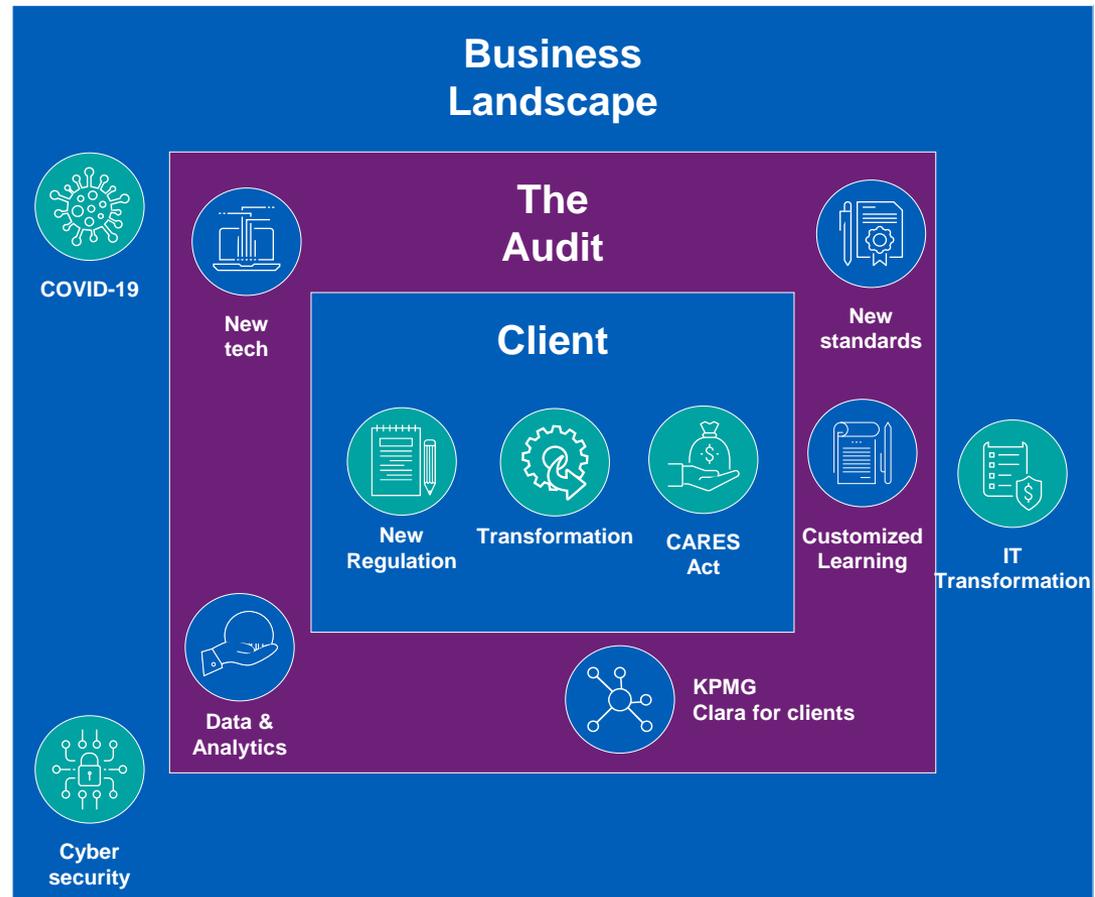
| New client experience efforts | Quality | Experience | Productivity | Insight |
|---|---------|------------|--------------|---------|
| Audit execution | | | | |
| Audits of Annual Comprehensive Financial Report of the City and standalone reports for the Department of Aviation and Department of Watershed Management as of and for the year ended June 30, 2020 | ● | ● | ● | ● |
| Audits of the General Employees', Police Officers, and Firefighters Pension Plans as of and for the year ended June 30, 2020 | ● | ● | ● | ● |
| Reports required under Uniform Guidance (Single Audit) | ● | ● | ● | ● |
| Hotel/Motel Tax report | ● | ● | ● | ● |
| Motor Vehicle Excise Tax Report | ● | ● | ● | ● |
| MOST report | ● | ● | ● | ● |
| TSPLOST report | ● | ● | ● | ● |
| Landfill AUP and compliance report | ● | ● | ● | ● |
| Passenger Facilities Charges report (Aviation) | ● | ● | ● | ● |
| National office consultation regarding the ongoing investigations to the formal administration | ● | ● | ● | ● |
| Data & analysis / automation | | | | |
| Utilization of KPMG iJET team to extract the data for journal entries | ● | ● | ● | ● |
| Deployed automation routines in auditing journal entry testing for high risk journal entries | ● | ● | ● | ● |
| Coordinating the audit | | | | |
| Coordination and planning meeting with component teams | ● | ● | ● | ● |
| Emerging issues update for accounting group | ● | ● | ● | ● |
| Status updates on implementation of critical audit matters | ● | ● | ● | ● |
| Continuous improvement principles around PBC management | ● | ● | ● | ● |

2021: Planning a better audit experience



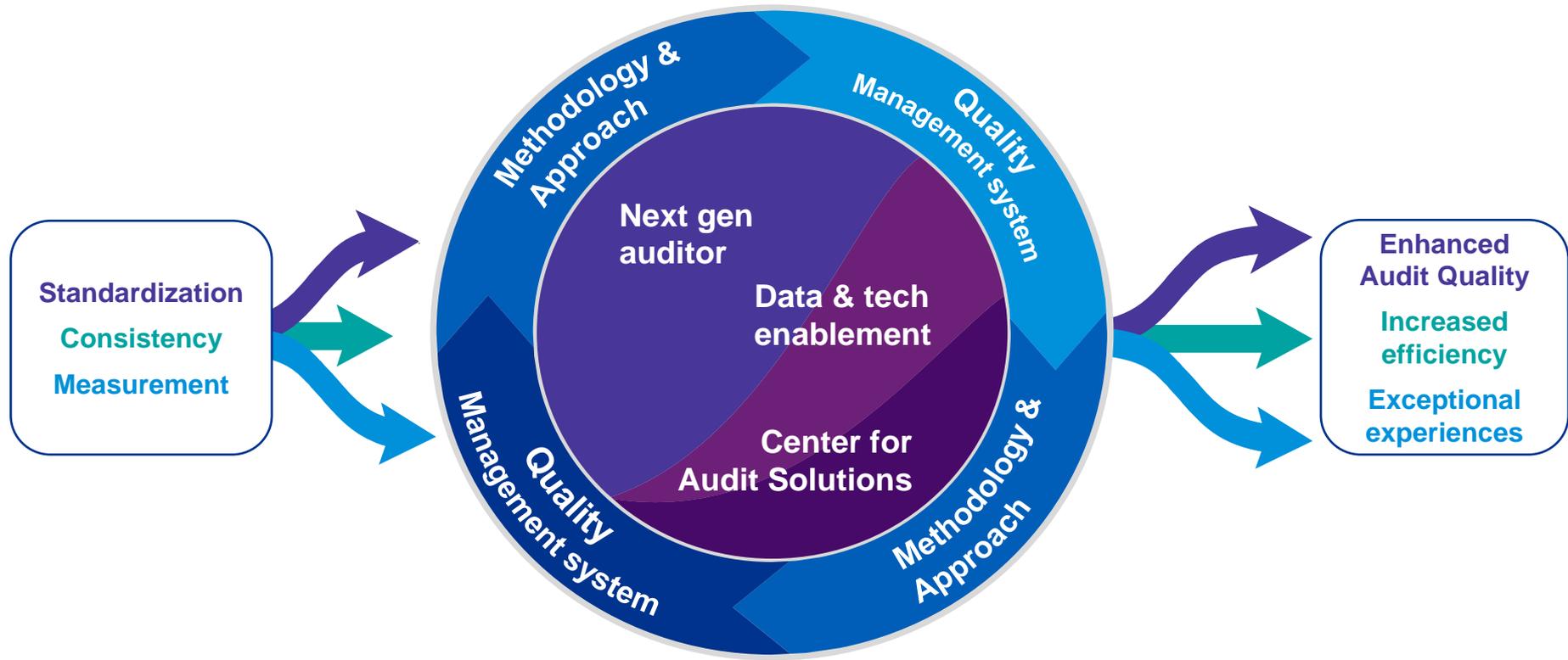
Delivering value – through and beyond the audit

- City's business:
 - Transformation
 - New regulation
 - CARES Act
- The audit
 - Modernization of audit
 - New standards
 - KPMG Clara for clients to collaboration
 - Customized learning opportunity
- The broader business environment
 - COVID-19
 - Cyber security
 - IT Transformation



Modernization: Driving quality, efficiency, and experience

We are modernizing the audit experience. Our continuous transformation effort will enhance quality and efficiency, while delivering an exceptional experience marked by a responsive team and enriched with audit insights.



FY 2021 audit fees



Fee discussion

The agreed amount for FY2021 audit fees based on the Board resolution is as follows:

| | Amount |
|-----------------------|--------------|
| Audit fees for FY2021 | \$ 1,699,051 |



Required Communications with Audit Committee



Summary: Audit approach required communications and other matters

| | Response |
|--|---|
| Role and identity of engagement partner | The lead audit engagement partner is: Karen Mitchell. |
| Significant findings or issues discussed with management | No matters to report. |
| Scope of audit | <p>We plan to issue auditors' reports on the Annual Comprehensive Financial Report of the City of Atlanta, Department of Aviation, and Department of Watershed Management. Other planned audit deliverables include reports required under Uniform Guidance (Single Audit), Reports on General Employees', Police, and Fire Pension Plans, Hotel/Motel Tax Report, Motor Vehicle Excise Tax Report, MOST report, TSPLOST Report, Landfill AUP and Compliance report, and Passenger Facilities Charges AUP report, Report on Management's Assertion material written communications between KPMG and management, and required communications between KPMG and the Audit Committee.</p> <p>The terms of our engagement, including the objective and scope of our audit, our responsibilities and the responsibilities of management, are recorded in the engagement letter.</p> <p>The audit of the financial statements, prepared in accordance with U.S. generally accepted accounting principles (GAAP) as promulgated by the Government Accounting Standards Board (GASB), will be conducted under the standards of U.S. generally accepted auditing standards (US GAAS) and Government Auditing Standards (GAS).</p> |
| Audit participants and strategy | KPMG covers 100% of Government-wide Financial Statements and Fund Financial Statements except for the discretely presented component units, which are audited by other independent auditors. |
| Materiality in the context of an audit | See slide 11 |
| Our timeline | See slide 12 |
| Risk assessment: Significant risks | See slide 13 |
| Risk assessment: Additional risks identified | See slide 14 |
| Involvement of others | See slide 15 |
| New effective accounting standards | See slide 16 |
| Independence | See slide 17 |
| Responsibilities | See slide 18 |
| Inquiries | See slide 19 |

Materiality in the context of an audit

We will apply materiality in the context of the preparation and fair presentation of the City's 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.

Our timeline

Mid May – June

Planning and risk assessment

Planning and initial risk assessment procedures, including:

- Involvement of others
- Identification and assessment of risks of misstatements and planned audit response for certain processes
- Obtain and update an understanding of the Company and its environment
- Inquire of those charged with governance, management and others within the Company about risks of material misstatement
- Coordinate with Internal Audit
- Evaluate design and implementation (D&I) of entity level controls and process level controls for certain processes
- Perform process walkthroughs and identification of process risk points for certain processes

Interim

- Ongoing risk assessment procedures, including:
 - Identification and assessment of risks of misstatements and planned audit response for remaining processes
- Communicate audit plan
- Identify IT applications and environments
- Perform tests of operating effectiveness (TOE) of relevant entity level controls (CERAMIC)
- Perform process walkthroughs and identification of process risk points for remaining processes
- Evaluate D&I of process level controls for remaining processes including IT
- Evaluate control deficiencies identified to date
- Perform interim substantive audit procedures

September – Mid December

Year-end

- Perform remaining substantive audit procedures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Review financial statement disclosures
- Present audit results to those charged with governance and perform required communications
- Issue audit reports on the City's financial statements

Mid Dec – Late Feb

Single Audit

- Design and perform audit procedures for the Single Audit for major federal and state programs in accordance with Uniform Guidance
- Evaluate results of audit procedures, including control deficiencies and findings
- Review schedule of expenditures of awards and footnotes
- Complete certification of the required Form SF-SAC to Federal Audit Clearinghouse

Risk assessment: Significant risks

Significant risks

Susceptibility to:

Error

Fraud

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.

[Yes]

| Significant risks | Description of significant risk | Susceptibility to: | | Relevant factors affecting our risk assessment |
|---|--|--------------------|-------|--|
| | | Error | Fraud | |
| Assumptions in the estimate of the Net Pension Liability and underlying census data (Pension Plans) | Significant judgment associated with the pension liability estimates | [Yes] | | Due to the amount of judgement and assumptions involved in the inputs to the calculation of the pension liability (including discount rate, long-term rate of return and mortality tables), the engagement team considers there to be a significant risk with regards to the actuarial assumptions and census data used in the determination of the pension liability. Also, there was a material misstatement noted in the pension plan census data with potential effects of inaccurate computation to the pension related accounts. |
| Benefit payments (Pension Plans) | Potential inaccurate payments to retirees and/or other beneficiaries | [Yes] | | In the previous audits, KPMG identified a material weakness in benefit payments due to material retroactive COLA payment adjustment to retirees and identified errors in distributions payment amounts due to the lack of sufficient and appropriate calculations based upon the retirees demographics and plan benefits. Accordingly, a significant risk of error has been identified with the benefit payments assertion of completeness, existence and accuracy. |

Risk assessment: Additional risks identified

| Additional risks identified | Relevant factors affecting our risk assessment and planned response |
|---|--|
| <p><i>Estimates</i></p> <ul style="list-style-type: none"> - <i>OPEB liability and related deferred inflows/outflows or resources</i> - <i>General Claims payable</i> - <i>Self-insured reserve (Workers' compensation and employee health and dental)</i> | <p>The estimates involve significant judgment by Management and the degree of subjectivity involved in the development of assumptions is high. Also, there is a high level of uncertainty to estimates by nature. We have not noted a significant change from the prior period in the methods for making the accounting estimates. We will engage KPMG professional specialists where deemed necessary to review relevant significant inputs to the estimates.</p> |
| <p>OPEB Census Data</p> | <p>In the prior year audit, we noted a material weakness related to an inaccurate allocation of OPEB liability and related accounts to general government and enterprise funds. We will consider this finding into designing and performing our audit approach for 2021 audit to respond to this risk.</p> |
| <p>Information Technology</p> | <p>In the prior year audits, we have identified material weakness to the IT system due to delay in the City identifying inappropriate access into the Oracle cloud system. We will consider this finding into designing and performing our audit approach for 2021 audit to respond to this risk.</p> |
| <p>Inaccurate Financial Reporting (Department of Watershed)</p> | <p>In the prior year audit, we noted a material weakness related to the Watershed financial statements with the potential effects of undetected errors reported in the financial statements. We will consider this finding into designing and performing our audit approach for 2021 audit to respond to this risk.</p> |

Involvement of others

| Audit of financial statements | Extent of planned involvement |
|--|---|
| KPMG professionals with specialized skill or knowledge who are involved in performance of audit procedures | Actuaries (Pensions, Worker's Compensation, OPEB), Tax, Valuation, IT, Data Analytics, Forensic |

Newly effective accounting standards

Effective immediately

GASB No.84, *Fiduciary Activities*

GASB No.90, *Majority Equity Interest*

Effective for FY2022

GASB No. 87, *Leases*

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

GASB No. 92, *Omnibus 2020*

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

Effective in FY2023

GASB No. 91, *Conduit Debt Obligations*

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.
- 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 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 the Company?
- 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 Company'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 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 the Company 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

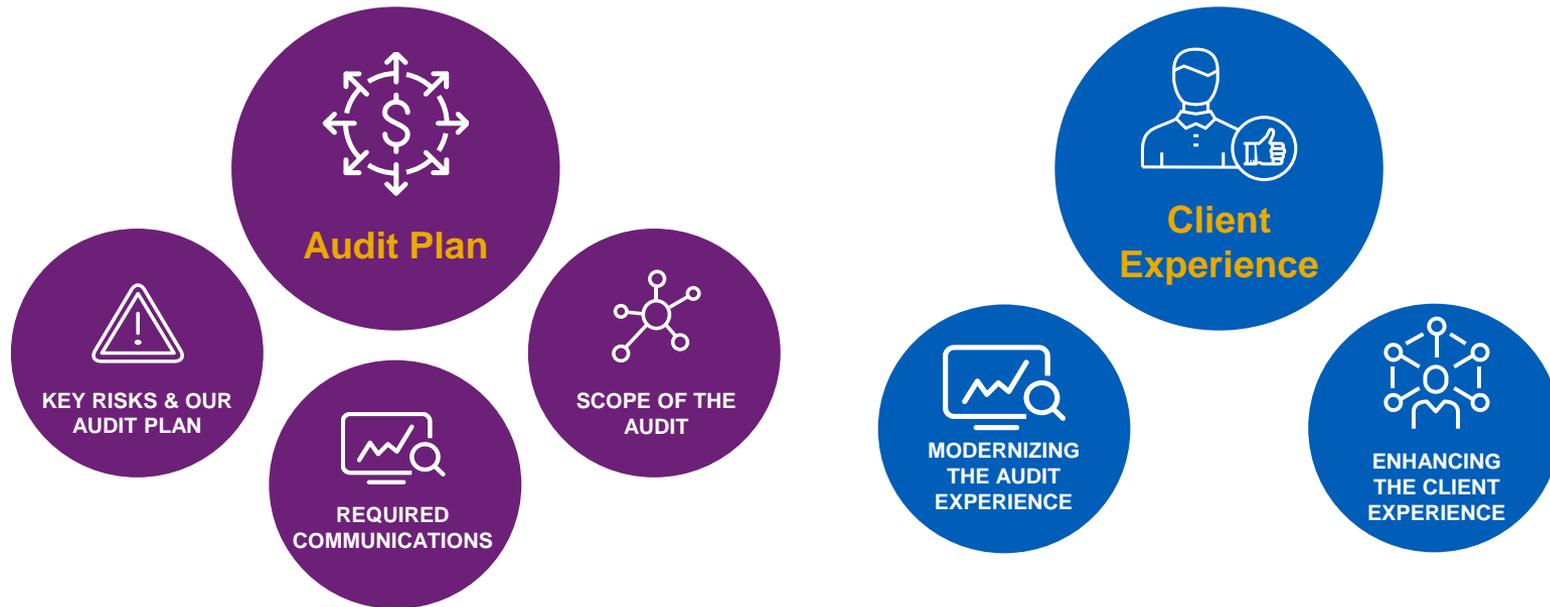
This presentation to those charged with governance is intended solely for the information and use of those charged with governance and management and is not intended to be and should not be used by anyone other than these specified parties. This presentation is not intended for general use, circulation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



Supporting slides

Executive summary

2021 AUDIT PLAN HOW WE'LL DELIVER AN EXCEPTIONAL AUDIT EXPERIENCE TO YOU



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

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.

Custom Learning Portal Overview

- KPMG Executive Education has a long history of providing CPE-eligible finance and accounting training in a variety of formats, including public seminars, private on-site classes, digital self-studies, and live topical webcasts. To enhance your organization's experience with training, we offer a tailored, cloud-based Custom Learning Portal (CLP).
- This online platform provides users with unlimited access to our extensive catalog of digital self-study courses over a one-year term. All courses are eligible for CPE and regularly updated for changing content, and new courses are added on a regular basis. Clarify responsibilities for data governance across the enterprise
- Training is developed by KPMG subject-matter professionals and leading practitioners from academia and business.
- Branded with your organization's logo and colors, a CLP allows training requirements to be outlined and communicated to each individual user. Your management selects courses deemed relevant to team members, designates certain courses as required or recommended, and sets the curriculum by level, role, or department.
- Users can access their training history, CPE certificates of completion,* and KPMG thought-leadership resources.
- KPMG will deliver a monthly report detailing registrations, completions, and courses in progress by individual. In addition, your management will receive a quarterly update that lists new courses and offers ideas on how to make the best use of the portal.
- KPMG will provide a CLP at no additional fee as a value-added service in the audit. The usual fee for up to 25 unique users is \$7,500, plus applicable sales tax.

**CPE Certificates of Completion will be available to all participants to download (contingent upon completion requirements being met, as outlined at the start of each training course/session). For those courses offered via our contracted digital provider (Thomson Reuters), CPE Certificates of Completion will be awarded under Thomson Reuters' accreditation and tracked via the CLP.*

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



[KPMG.com/socialmedia](https://www.kpmg.com/socialmedia)

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