



Metropolitan Water District of Southern California

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



Our commitment to you

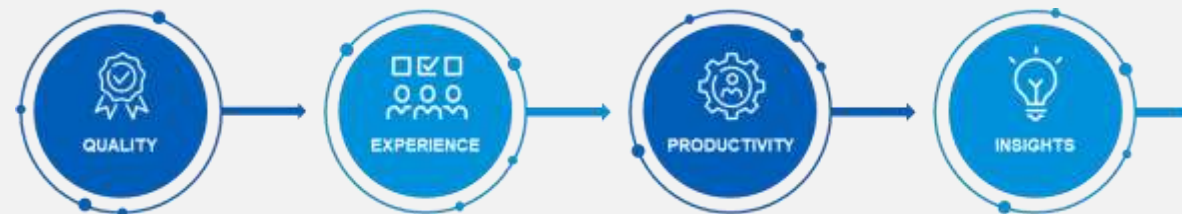


Delivering a better audit experience drives us.

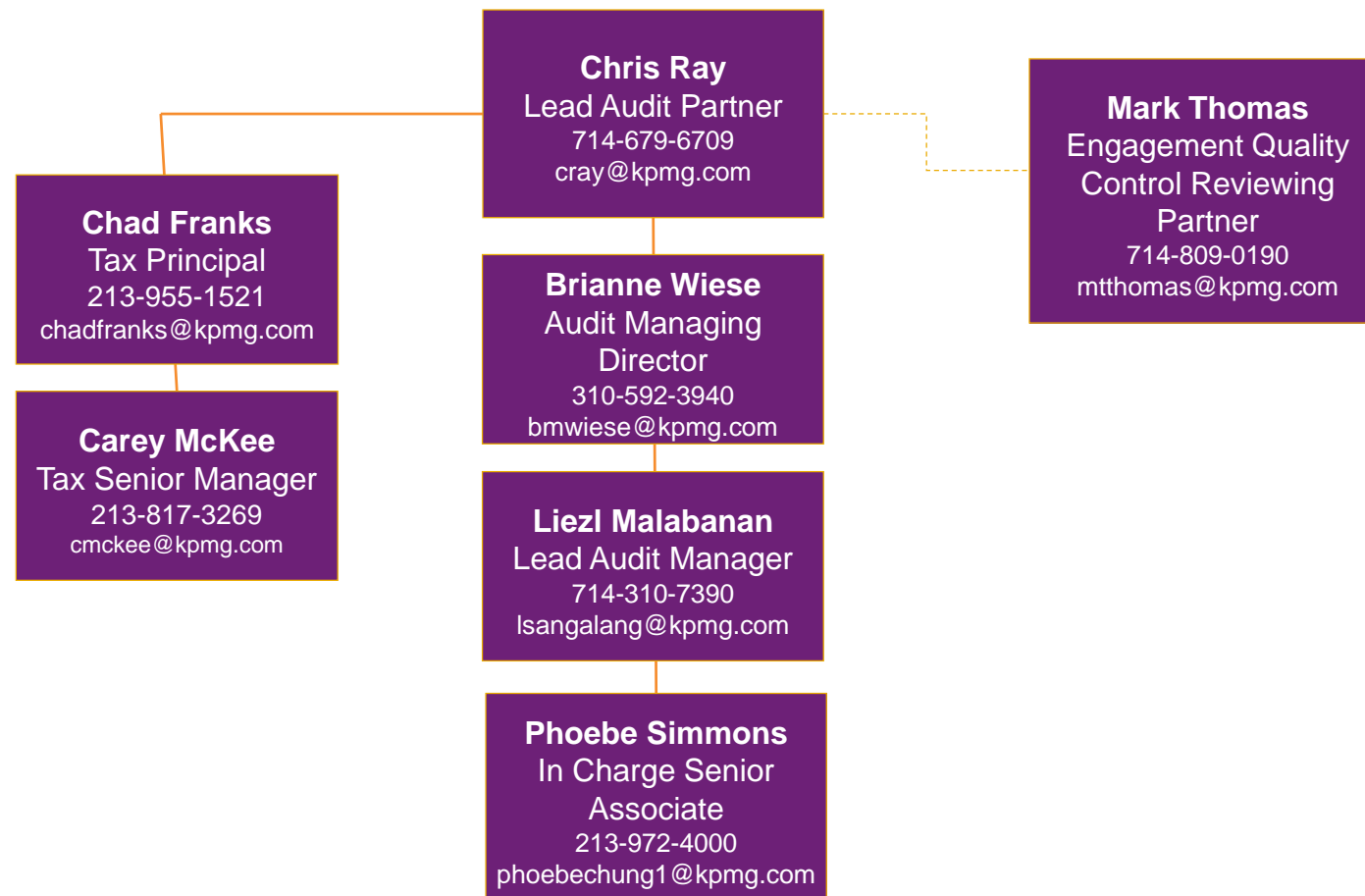
With KPMG you can expect an experience that's better for your team, organizations and the capital markets. An experience that's built for a world that demands agility and integrity.

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 Metropolitan Water District of Southern California by focusing on:



Client service team



Team members with continuity are designated in purple.

Executive summary

2021 AUDIT PLAN



Scope of the audit

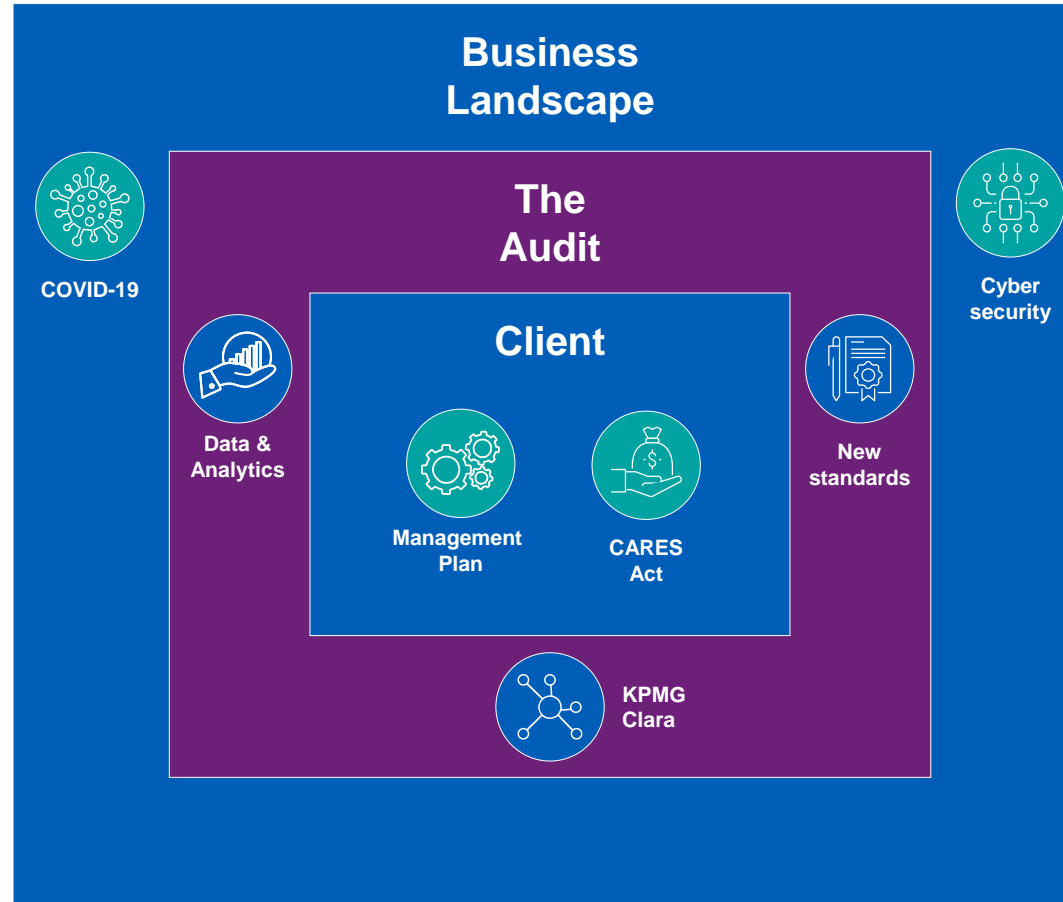
- Metropolitan Water District of Southern California financial statements
- Comprehensive Annual Financial Report of the Metropolitan Water District of Southern California
- Six Agency Committee financial statements
- Colorado River Joint Powers Authority financial statements
- Delta Conveyance Design and Construction Joint Powers Authority financial statements
- Single Audit report

2021: Planning a better audit experience



Delivering value – through and beyond the audit

- Your business:
 - CARES Act and other federal funding
 - Management Plan
- The audit
 - Data & Analytics
 - KPMG Clara
 - GASB Statement No. 84



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

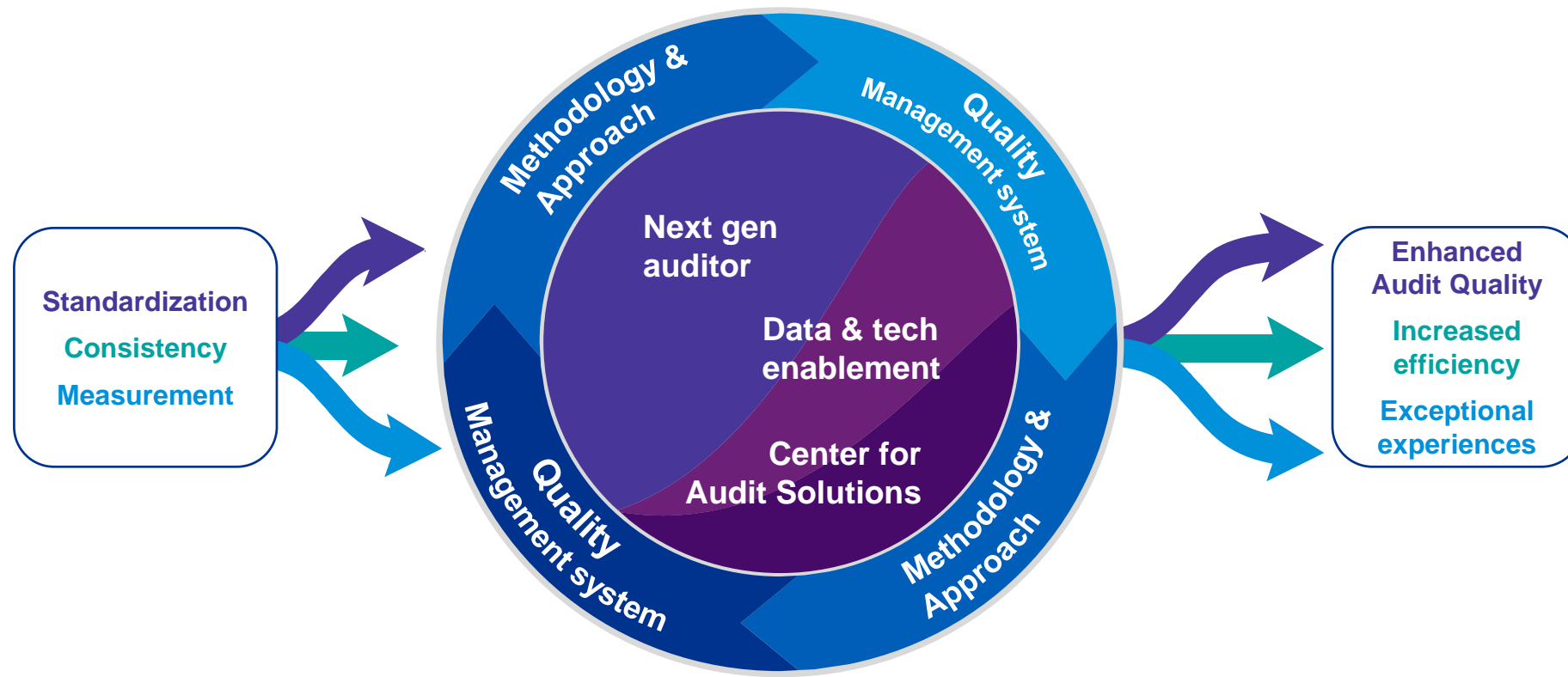
No matter your technology environment, we streamline data extraction and transformation to power the audit.

Automation Throughout Our Response

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

Modernization: Driving quality, efficiency, and experience

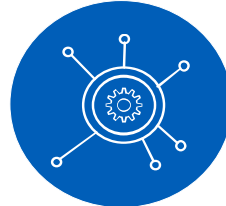
We are modernizing the audit experience. Our continuous transformation effort will enhance quality and efficiency, while delivering an exceptional experience marked by a responsive team and enriched with audit insights.



Your experience. Made better.

We have heard our client's feedback, considered trends, and other challenges in order to identify opportunities to raise the bar on your overall client experience.

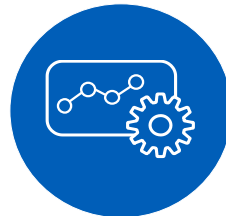
Our Planned Actions – Audit Related



**KPMG Clara
Expansion**



Alteryx



PowerBI



**Automated
Vouching Tool**

What this means for you



Meaningful insights delivered to add value for you – today and tomorrow



Commitment to build onto our strong foundation serving you



Relentless continuous improvement mindset to continually raise the bar



Deliberate planning and execution of our client experience strategy



Required Communications to Those Charged with Governance



Summary: Audit approach required communications and other matters

Planning & risk assessment	Response	
	Role and identity of engagement partner	The lead audit engagement partner is Chris Ray
	Significant findings or issues discussed with management	No matters to report.
	Scope of audit	<p>Our audit of the financial statements of the following entities will be performed in accordance with auditing standards generally accepted in the United States of America.</p> <ul style="list-style-type: none"> • Metropolitan Water District of Southern California • Six Agency Committee • Colorado River Joint Powers Authority <p>Our audit also includes the report issued in connection with the Uniform Guidance for Metropolitan Water District of Southern California</p>
	Materiality in the context of an audit	See slide 12
	Our timeline	See slide 13
	Risk assessment: Significant risks	See slide 14
	Other risk assessments	See slide 15
	Involvement of others	See slide 16
	New effective accounting standards	See slide 17

Summary: Audit approach required communications and other matters

	Response
Independence	See slide 18
Responsibilities	See slide 19
Inquiries	See slide 20

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.

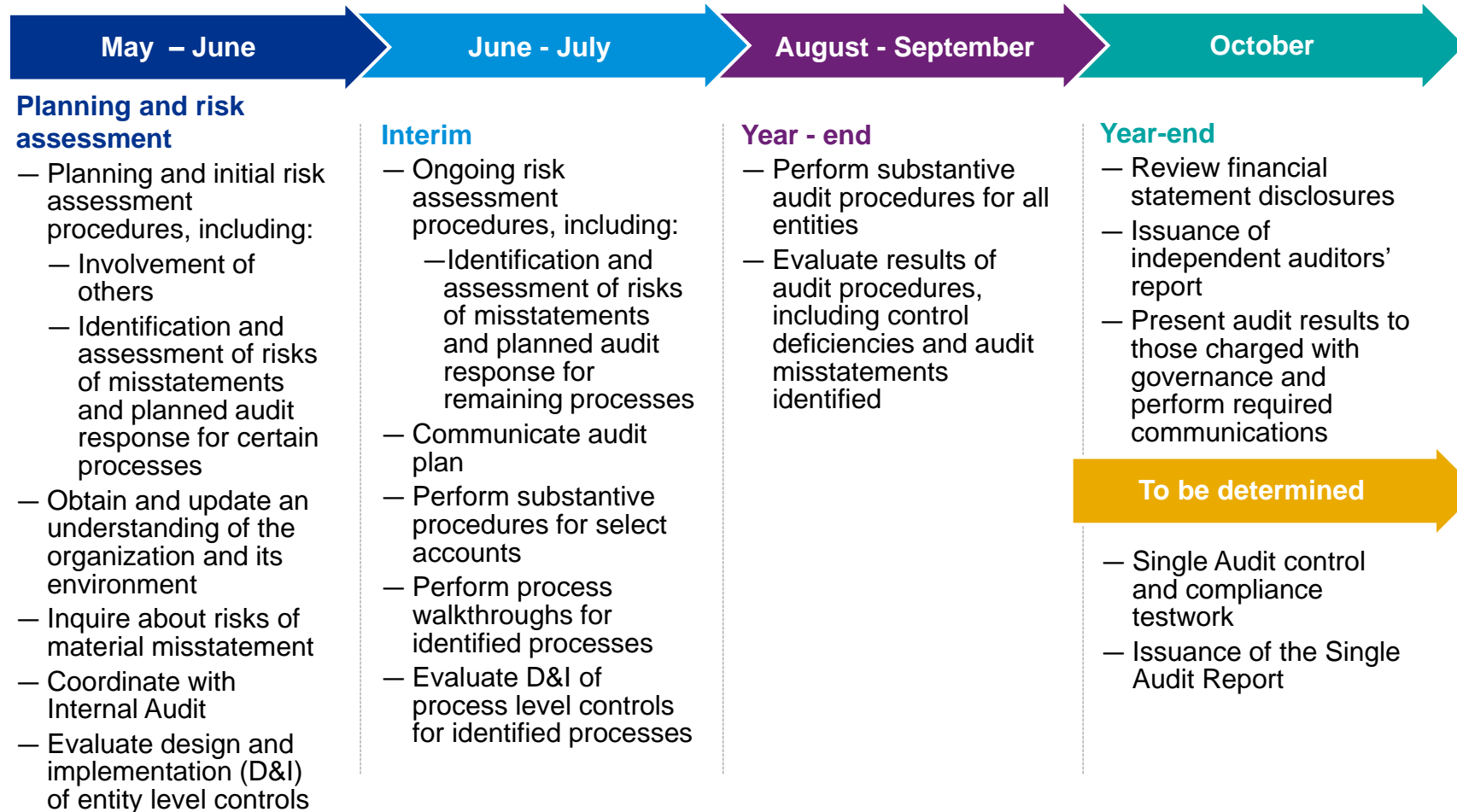
Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

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

- 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



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****N****Y****Y = Yes N = No**

Other risk assessments

Other audit considerations	Susceptibility to		Relevant factors affecting our risk assessment:
	Error	Fraud	
COVID-19	Y	N	Incremental risk assessment considerations
Cash and investments	Y	N	Cash and investments represent approximately 10% of total assets
Capital assets, including participating rights in the Statement Water project	Y	N	Capital assets represent approximately 84% of total assets
Long-term debt	Y	N	Long-term debt represents approximately 77% of total liabilities
Pension amounts	Y	N	Pension liabilities represent approximately 12% of total liabilities. This liability is based on an actuarial report supported by various assumptions.
Revenues	Y	N	Water sales represents approximately 76% of total revenues.
Expenses	Y	N	Power and water costs and salary and benefit expenses represents 52% of total expenses.

Y = Yes

N = No

Involvement of others

Audit of financial statements	Plan to involve?	Extent of planned involvement
Internal Audit	Y	Assist in the performance of audit procedures on the following areas: <ul style="list-style-type: none"> • Receipts and disbursement • Capital asset • Census data for Pension and Other post-employment benefits • Payroll • Compliance testing for the Single Audit
KPMG specialists involved in performance of audit procedures	Y	<ul style="list-style-type: none"> • Review of actuarial reports for pension and other post- employment benefits

Y = Yes N = No

Newly effective accounting standards

Effective immediately

GASB 84: Fiduciary Activities

GASB 95: Postponement of the effective dates of certain authoritative guidance

Effective for calendar year-end companies in 2021

GASB 89: Accounting for interest cost incurred before the end of a construction period

GASB 90: Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61

Effective for calendar year-end companies in 2022 and thereafter

GASB 87: Leases

GASB 91: Conduit debt obligations

GASB 92: Omnibus 2020

GASB 93: Replacement of Interbank Offered Rates

GASB 94: Public-Private and Public-Public partnerships and availability payment arrangements

GASB 96: Subscription-based IT arrangements

GASB 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

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



- 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?

Inquiries (Continued)

The following inquiries are in accordance with AU-C 260

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

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