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Illinois State Toll Highway Authority

Independent External Audit Services Plan
For the fiscal year ended December 31, 2012

Presentation to the Audit Committee
December 12, 2012

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Audit scope and deliverables

Audit Scope for the year ended December 31, 2012:

- Independent auditors' reports on the financial statements of the Illinois State Toll Highway Authority
- Independent Auditors' Reports 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* (Yellow Book Report) of the Illinois State Toll Highway Authority
- Illinois State Compliance Attestation report and Supplemental Financial Information
- Information Systems (IS) Review
- Reports to the Audit Committee on required auditor communications

Engagement team

Name	Role	Contact details
Tom Kizziah	Office of the Illinois State Auditor General serves as audit manager with responsibility for oversight of the Authority's external audit.	Phone: (312) 814-4073 E-mail: oag57@mail.state.il.us
Cathy Baumann	Financial Statement Engagement Partner with responsibility for the financial statement audit , Information Systems Review, and State Compliance examination of the Authority.	Phone: (312) 665-8980 E-mail: cbaumann@kpmg.com
Andy Gottschalk	IT Engagement Partner with the responsibility for the Information Systems review for the financial Statement Audit of the Authority.	Phone: (312) 665-2883 Email: agottschalk@kpmg.com
Leilani Rodrigo	Partner – EC Ortiz with responsibility for the State Compliance examination of the Authority.	Phone: (312) 876-1900 Email: lrodrigo@ecortiz.com
Kris Allen	Lead Engagement Senior Manager serves as the day-to-day audit liaison between the Authority and KPMG.	Phone: (312) 665-4011 E-mail: kristopherallen@kpmg.com
Jason Rosheisen	Engagement Manager assisting with the financial statement audit and the State Compliance examination.	Phone: (312) 665-1865 E-mail: jrosheisen@kpmg.com
Rose Murphy	IT Engagement Manager assisting with the Information Systems review for the financial Statement Audit of the Authority.	Phone: (312) 665-2509 Email: rosemarymurphy@kpmg.com
Jean-Brice Ngouen	Overall Senior Associate assists with the day-to-day interactions between the Authority and KPMG.	Phone: (312) 665-1171 Email: jngouen@kpmg.com

Objective of an audit and responsibilities

Objective of an Audit

- The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with generally accepted accounting principles (GAAP)
- An audit of financial statements is designed to provide reasonable, not absolute, assurance that the financial statements taken as a whole are free from material misstatement
- Reasonable assurance relates to the accumulation of sufficient appropriate audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial statements taken as a whole

KPMG's Responsibilities

- 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 presented fairly, in all material respects, in conformity with GAAP
- Conducting an audit in accordance with professional standards and complying with the Code of Professional Conduct adopted by the American Institute of Certified Public Accountants
- Complying with the ethical standards of state CPA societies, state boards of accountancy, and *Government Auditing Standards*
- Planning and performing an audit with an attitude of professional skepticism
- Communicating all required information to Authority management and to the Audit Committee of the Board of Directors
- Maintaining open lines of communication and responsiveness throughout the year

Objective of an audit and responsibilities (continued)

Management's Responsibilities

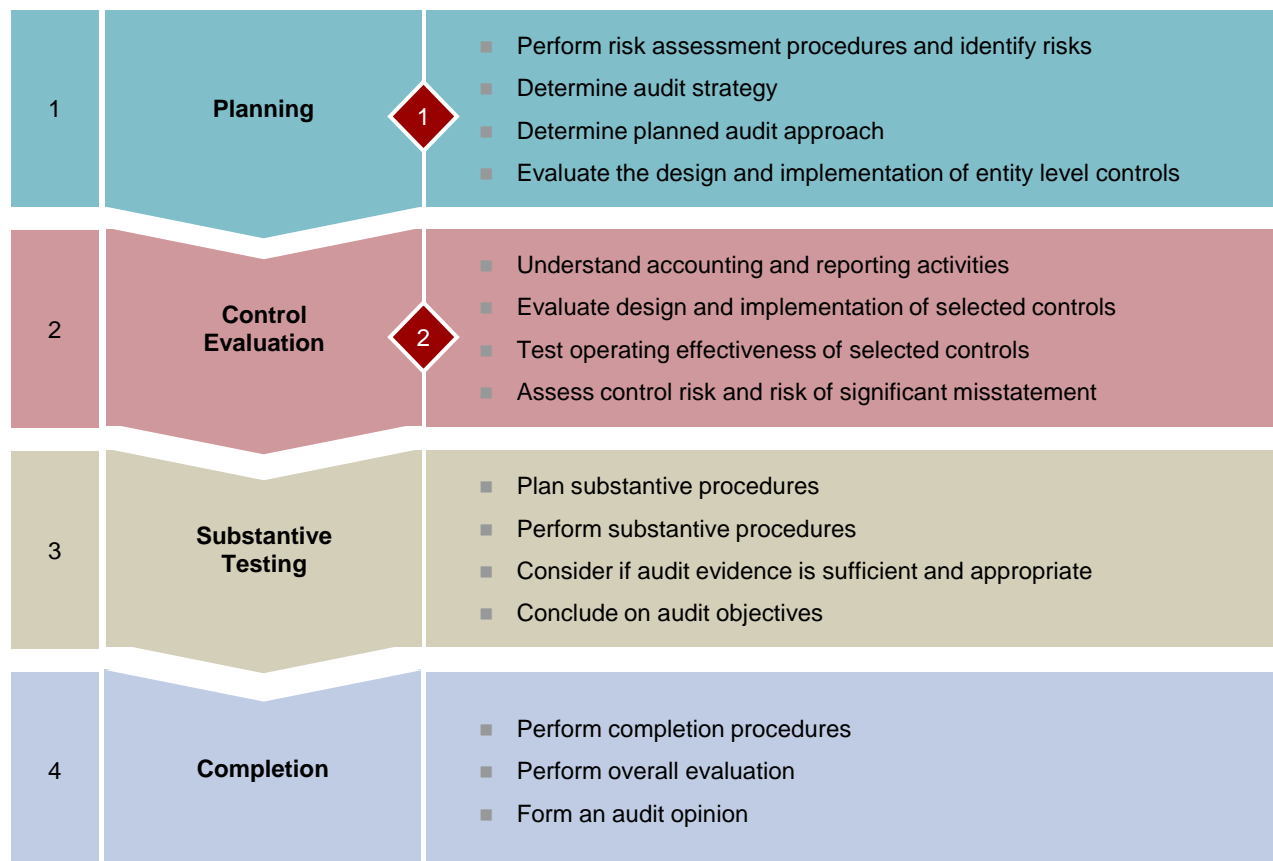
- Adopting sound accounting policies
- Establishing and maintaining internal control
- Fairly presenting the financial statements in conformity with GAAP
- Compliance with provisions of laws, regulations, contracts, and grant agreements

Audit Committee's Responsibilities

- Role is one of oversight and monitoring
- Must rely on senior management, internal and external auditors

Audit methodology

Four-phase Audit Workflow



Preliminary decision on controls or substantive approach for each audit objective



Confirm decision on controls or substantive approach for each audit objective

Involvement of others

Subcontractor Firm

- Our engagement team will also include professionals from the subcontractor firm of E. C. Ortiz & Co.

Preliminary risk assessments

Financial statement level risks	Description of financial statement level risk	Planned audit approach
Overall economic conditions	The overall economic conditions have had an impact on the State and Local Government industry, including declines in revenues and earnings, created a decreased market for tax-exempt bonds, and resulted in the evaluation of various cost saving measures.	We will remain mindful of the impact of the overall economic conditions and the impact on the Authority. In particular, we will evaluate whether such conditions have resulted in any changes to the overall control environment of the Authority.
Credit Market Conditions	The Authority's investments and bonds may be exposed to valuation risks associated with the current credit market conditions.	We will update our understanding of management's process used to determine the estimated fair value of investments (including alternative investments), the availability of information used in determining estimated fair value of investments, and exposure related to valuation associated with the illiquid credit market conditions. Additionally, we will obtain an understanding of credit risks associated with outstanding debt of the Authority.
Revenue and Receivables	Revenues and receivables are recognized at the time of service according to established rates. As a result of contractual agreements in place with third-party service providers and reimbursement will differ from these established rates.	We will perform procedures related to the revenue process to ensure controls are properly designed and operating effectively to ascertain the completeness, existence, and valuation of revenues and receivables, and related to the charge capture to ensure charges exist and are accurate. Additionally, we will perform substantive procedures over the valuation of revenues and receivables.
Information Technology General Controls	Information technology general controls have a pervasive impact on controls throughout the Authority.	The engagement team includes KPMG Information Risk Management professionals, who will perform walkthroughs and tests of design and operating effectiveness related to information technology general controls related to Information systems. Specific procedures will be performed related to access to programs and data, program changes, program development, computer operations, and end-user computing.

Illinois state compliance attestation and supplemental financial information

- Objective: To determine whether the Authority has established effective internal control over compliance and has complied with the following compliance assertions as defined in the Office of the Auditor General's Audit Guide:
 - The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
 - The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
 - The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
 - State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
 - Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered, and the accounting and record keeping relating thereto is proper, accurate, and in accordance with law.
- Our responsibility (in addition to those on page 4)
 - To examine and report on the Authority's compliance with the requirements fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies* (Audit Guide) as adopted by the Auditor General

Engagement timing

- Entrance Conference – October 26, 2012
- Preliminary Fieldwork – November 5, 2012
- Final Fieldwork – Begins January 2013
- Exit Conference – June 2013
- Financial Statements Issuance – June 2013
- State Compliance Reports Issuance – June 2013

New accounting pronouncements

GASB Statement No. 60 Accounting and Financial Reporting for Service Concessions

Effective for periods beginning after December 15, 2011 (FY12)

GASB Statement No. 61 The Financial Reporting Entity: Omnibus

Effective for periods beginning after June 15, 2012 (FY13)

GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements

Effective for periods beginning after December 15, 2011 (FY12)

GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Effective for periods beginning after December 15, 2011 (FY12)

GASB Statement No. 64 Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53

Effective for periods beginning after June 15, 2011 (FY12)

GASB Statement No. 65 Items Previously Reported as Assets and Liabilities

Effective for periods beginning after December 15, 2012 (FY13)

GASB Statement No. 66 Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62

Effective for periods beginning after December 15, 2012 (FY13)

KPMG's Audit Committee Institute (ACI)

KPMG's Audit Committee Institute

- Recognizing the challenges that boards and audit committees face in meeting their demanding responsibilities, KPMG created the Audit Committee Institute (ACI) to serve as a resource for board and audit committee members and senior management. ACI's primary mission is to communicate with boards and audit committee members to enhance their awareness of, commitment to, and ability to implement effective audit committee processes.
- Wholly sponsored by KPMG International, the ACI provides complimentary guidance and engages in a variety of initiatives to assist boards and audit committee members. Board members can turn to the ACI at any time for help and advice or to share knowledge.

Resources

- ACI website: www.kpmg.com/aci
- ACI mailbox: auditcommittee@kpmg.com
- ACI hotline: 1-877-KPMG-ACI



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