

# New York City Housing Development Corporation

FY 2023 audit plan

October 2023



## What's new and next

### What's new:

- ▶ New accounting pronouncement adoptions

### What's next:

Actions the team is taking in the near term:

- ▶ Perform walkthroughs of significant classes of transactions
- ▶ Perform interim data analytics procedures
- ▶ Determine timing of any on-site visits to perform procedures

## 2023 audit plan

Hybrid fieldwork model planned for 2023 audits

- ▶ Interim procedures: October through November 2023
- ▶ Year-end procedures: November through January 2024
- ▶ Expected filing - late January 2024

Uniform Guidance Audit Plan

- ▶ Expected filing - late January 2024

USAP Audit Plan

- ▶ Expected filing - late January 2024

## Digital Commitment

Plans for leveraging EY Digital Audit in 2023:

- ▶ Use of collaborative technology in the continued hybrid environment
- ▶ EY Canvas Client Portal
- ▶ Teams meetings
- ▶ Use of data analytics procedures in assessing risk and account balance testing

# 2023 Audit Services

## 2023 audit and related services

### Express opinions on, and report to the Audit Committee the results of our audits of:

- ▶ The financial statements of the Corporation and the accompanying supplementary information in relation to the financial statements as a whole
- ▶ The Corporation's Schedule of Federal Awards as required by the Uniform Guidance
- ▶ The Corporation's Schedule of Investments

### Issue a written communication to

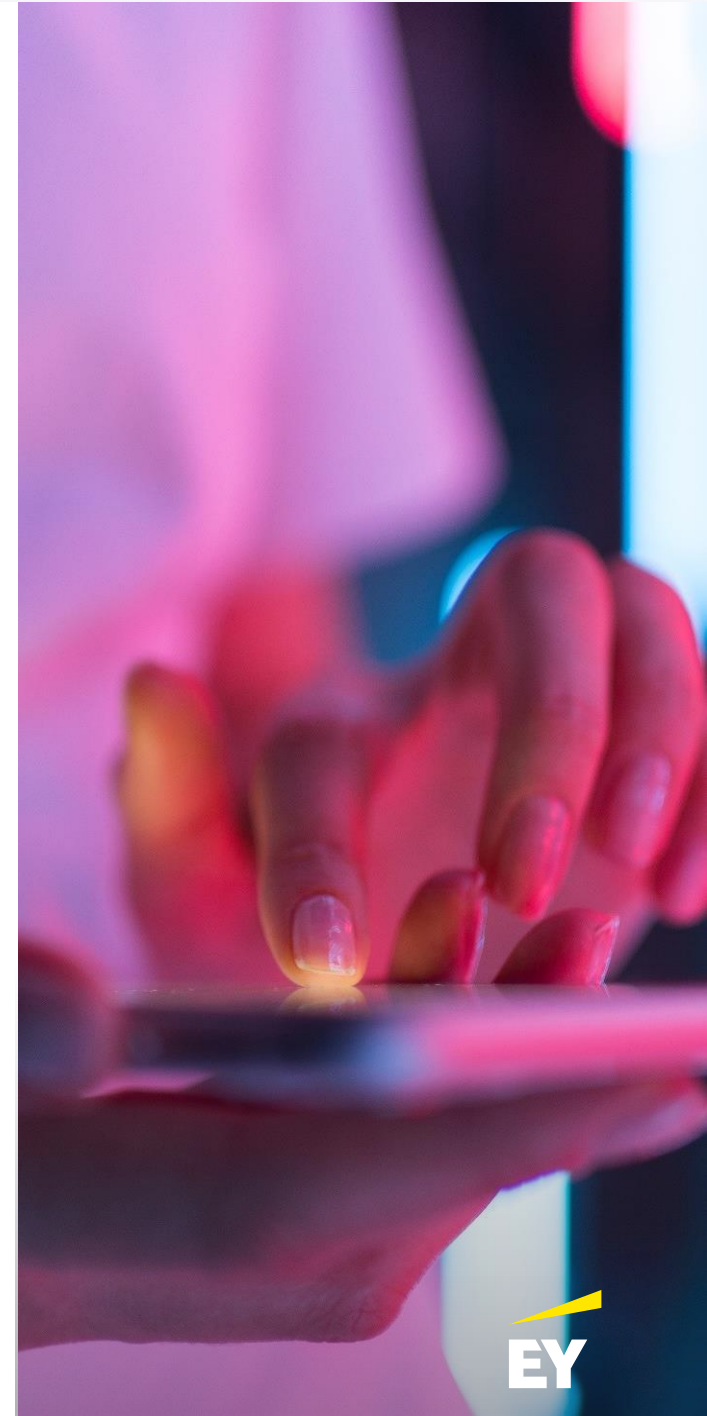
- ▶ Management and the Audit Committee describing significant deficiencies and material weaknesses identified during our audit, if any
- ▶ Issue a management letter including recommendations for improvements in controls and procedures (if applicable)

### Internal Control and Compliance Communications









- ▶ Issue a Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*
- ▶ Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

### Other attestation services

- ▶ Report on the Corporation's compliance with minimum servicing requirements















# Areas of emphasis

Topic	Significance	Subjectivity	Considerations
Internal controls over applications that affect the financial statements	 Moderate	 Low	<p>During our audit we will update our understanding of internal control and evaluate the various internal controls over financial reporting as a basis of determining our overall audit approach and scope. We will evaluate the following significant processes:</p> <ul style="list-style-type: none"> <li>▶ Payroll</li> <li>▶ Purchases/Accounts Payable/Cash Disbursements</li> <li>▶ Mortgage Revenue/Accounts Receivable/Cash Receipts</li> <li>▶ Grant Management</li> <li>▶ Financial Statement Close</li> <li>▶ Debt Issuance, recording and monitoring</li> <li>▶ Recording Changes in Net Position</li> <li>▶ Risk Management</li> <li>▶ Investment Process</li> </ul>
Cash and investments	 Moderate	 Low	We will confirm significant cash and investment balances and agree responses to the Corporation's accounts and related reconciliations. Investments will be tested to determine that they are properly valued and all risk disclosures will be evaluated. We will also test the Corporation's compliance with the Investment Guidelines.
Mortgage receivable and allowances	 High	 Moderate	We will confirm a selection of the Corporation's mortgage receivable balances and utilize data analytical procedures. The Corporation's methodology for recording allowances and writing off old balances will be tested and evaluated for significant judgments made by management in establishing the balance.
Accounts payable and other accrued liabilities	 Moderate	 Moderate	We will perform testing of the Corporation's accruals and payments made subsequent to year-end to evaluate the completeness of the liabilities at year-end.

<sup>1</sup> Asterisked areas indicate accounts or transactions identified as having significant risks, which are risks with both a higher likelihood of occurrence and a higher magnitude of effect that require special audit considerations.













# Areas of emphasis (continued)

Topic	Significance	Subjectivity	Considerations
Debt	 High	 Low	We will confirm all outstanding debt and review the accounting and reporting for debt transactions, including debt compliance.
Due to New York City	 High	 Low	We will review and test a selection of the Corporation's transactions with The City of New York.
Payable to Mortgagor	 Low	 Low	We will perform testing of the Corporation's accruals and payments made subsequent to year-end to evaluate the completeness of the liabilities at year-end.
Unearned Revenues	 Moderate	 Moderate	We will obtain a listing of all unearned revenue accounts and review and test a selection of transactions.
Net Position	 Moderate	 Low	We will test changes to net position and evaluate the classification of net position balances.
Litigation and loss contingencies	 Low	 Moderate	We will gain an understanding of management's process for identifying commitments and contingencies. Our procedures will include corresponding with internal and external legal counsel on the status of ongoing litigation and other matters, if applicable. We will determine whether recorded amounts/disclosures are appropriate.

<sup>1</sup> Asterisked areas indicate accounts or transactions identified as having significant risks, which are risks with both a higher likelihood of occurrence and a higher magnitude of effect that require special audit considerations.

# Areas of emphasis (continued)

Topic	Significance	Subjectivity	Considerations
Revenue recognition	 Moderate	 Moderate	We will use data analytical procedures to risk assess and confirm our understanding of the accounting and flow of the various revenue streams. We will perform analytics such as correlation analyses between revenue, receivables and cash in order to identify and investigate unusual transactions. For a sample of cash receipts, we will trace the item to revenue source documentation and cash and test for proper classification to determine if it was recognized in accordance with the relevant revenue recognition rules.
Operating Expenses	 Moderate	 Low	We will use data analytical procedures to risk assess and confirm our understanding of the accounting and flow of the operating expense transactions. We will perform analytics such as correlation analyses between trade accounts payable, expenses and cash in order to identify and investigate unusual transactions. For a sample of operating expenses, we will trace the item to source documentation and cash and test for proper classification.  We will also utilize data analytics to perform completeness and cutoff procedures.
Compliance with Uniform Guidance (Single Audit)	 Low	 Low	We will perform testing over federal programs determined to be major programs based on schedule of expenditures of federal award amounts.
Risk of management override of controls	 Moderate	 Moderate	Professional standards require that we consider the risk of management override of controls to be a fraud risk on all audits. We will design our audit procedures, including our journal entry testing, to be responsive to this risk.
Related parties	 Moderate	 Moderate	We will perform procedures to ensure the completeness of the related party listing and review for any related party transactions which require disclosure in the financial statements.

<sup>1</sup> Asterisked areas indicate accounts or transactions identified as having significant risks, which are risks with both a higher likelihood of occurrence and a higher magnitude of effect that require special audit considerations.

# Appendices



- A Required communications
- B Upcoming GASB accounting pronouncements
- C Peer Review Report
- D IAASB's International Standard on Quality Management 1 overview

# Required communications

Area	Comments
Terms of the audit engagement, including the objective of the audit, the auditor's responsibilities under generally accepted auditing standards and management's responsibilities	This is included in the engagement agreement signed with the Corporation.
Overall planned scope and timing of the audit, and significant risks identified and any changes thereto	Refer to the executive summary and areas of emphasis for additional information.
Significant issues discussed with management in connection with the auditor's initial appointment or recurring retention	There are no matters to communicate.
Independence matters	We are not aware of any matters that in our professional judgment would impair our independence.
Inquiries regarding: <ul style="list-style-type: none"> <li>▶ Risks of material misstatement</li> <li>▶ Fraud and noncompliance with laws and regulations (illegal acts)</li> <li>▶ Related-party relationships and transactions</li> </ul>	Inquiries regarding these matters are to be performed at this meeting and throughout the audit. We are currently not aware of any matters to be reported.

As required, provided above is a summary of required communications between the audit team and those charged with governance, as required by AICPA Clarified US Auditing Standard (AU-C) 260, *The Auditor's Communication With Those Charged With Governance*, and other applicable auditing standards. This communication is intended solely for the information and use of those charged with governance and, if appropriate, management, and is not intended to be, and should not be, used by anyone other than these specified parties.



# Upcoming GASB accounting pronouncements

GASB Standard	Effective Date
<p><b>GASB Statement No. 99, <i>Omnibus 2022</i></b></p> <p>The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. These practice issues include areas such as derivative instruments, leases, PPPs, SBITAs, LIBOR, nonmonetary transactions and terminology updates.</p>	<p>Various. Certain provisions are effective immediately.</p> <p>Leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.</p> <p>The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.</p>
<p><b>GASB Statement No. 100, <i>Accounting Changes and Error Corrections- an amendment of GASB Statement No. 62</i></b></p> <p>The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.</p>	<p>Effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.</p>

# Upcoming GASB accounting pronouncements (continued)

GASB Standard	Effective Date
<p><b>GASB Statement No. 101, <i>Compensated Absences</i></b></p> <p>The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.</p> <p>The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences.</p>	<p>Effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.</p>

# Peer Review Report



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## Report on the Firm's System of Quality Control

May 1, 2023

To the Partners of Ernst & Young LLP and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Ernst & Young LLP (the firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2022. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### Firm's Responsibility

The firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control based on our review.

### Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans; audits performed under



FDICIA; and examinations of service organizations (SOC 1<sup>®</sup> and SOC 2<sup>®</sup> engagements).

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

### Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Ernst & Young LLP, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2022, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Ernst & Young LLP has received a peer review rating of *pass*.

*Grant Thornton LLP*

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# IAASB's International Standard on Quality Management 1 (ISQM 1) overview

The International Auditing and Assurance Standards Board (IAASB) adopted a standard that requires audit firms to annually evaluate, and report to audit committees of public interest entities that they audit, the effectiveness of their system of quality management.

## What are the requirements?

- ▶ ISQM 1 became effective 15 December 2022 and replaces the IAASB's existing rules-based quality control standards with a new risk-based approach to quality management.
- ▶ ISQM 1 applies to all audit firms that provide audit and assurance services, including each member firm of the EY Global organization that provides such services.
- ▶ ISQM 1 requires an audit firm to identify its quality objectives, the risks to achieving those objectives, and its policies and controls that are responsive to those risks. Firms must then monitor and annually evaluate the design, implementation and operating effectiveness of those policies and controls and its managing partner, on behalf of the firm, must make an evaluation of the effectiveness of its system of quality management.
- ▶ In June 2022, the AICPA issued SQMS No. 1, *A Firm's System of Quality Management*, to replace its existing quality control standards with new quality control standards based on ISQM 1. SQMS 1 is materially consistent with ISQM 1.
- ▶ ISQM 1 requires audit firms to communicate the results of their annual evaluation to the audit committees of public interest entities that they audit. EY expects that our first annual evaluation of our system of quality management under ISQM 1 will be as of 30 June 2023 and that we will report the results of that annual evaluation later in the year.

## Audit committee considerations

- ▶ EY implemented ISQM 1 through a "top-down" approach utilizing globally consistent quality objectives, quality risks and responses. The implementation activities resulted in more consistent and formalized processes, policies and enhanced quality controls across the EY network firms. We adopted ISQM 1 as of 15 December 2022.
- ▶ The requirements of ISQM 1 for audit firms to communicate with audit committees about their system of quality management are incremental to existing requirements to communicate about their system of quality control. ISQM 1 requires auditors to communicate to audit committees how its system of quality management supports the consistent performance of quality audit engagements, including a number of specific disclosures.
- ▶ ISQM 1 and the revised AICPA quality control standards will provide a consistent framework for audit firms to evaluate their systems of quality management and provide audit committees with greater transparency on the effectiveness of audit firms' system of quality management.
- ▶ EY supports the IAASB's, PCAOB's and AICPA's efforts to enhance their quality control standards, including the requirement to make an annual evaluation of our system of quality management and communicate the results to audit committees. We began voluntarily issuing our audit quality report, *Our commitment to audit quality*, in 2012 and believe that transparency about audit firms' quality controls contributes to continuous improvement in audit quality and promotes trust and confidence in the capital markets.



## EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

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### About EY's Assurance Services

Our assurance services help our clients meet their reporting requirements by providing an objective and independent examination of the financial statements that are provided to investors and other stakeholders. Throughout the audit process, our teams provide a timely and constructive challenge to management on accounting and reporting matters and a robust and clear perspective to audit committees charged with oversight.

The quality of our audits starts with our 90,000 assurance professionals, who have the breadth of experience and ongoing professional development that come from auditing many of the world's leading companies.

For every client, we assemble the right multidisciplinary team with the sector knowledge and subject matter knowledge to address your specific issues. All teams use our Global Audit Methodology and latest audit tools to deliver consistent audits worldwide.

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