

PORT OF TACOMA

Audit Committee 2021 Audit

November 15, 2021

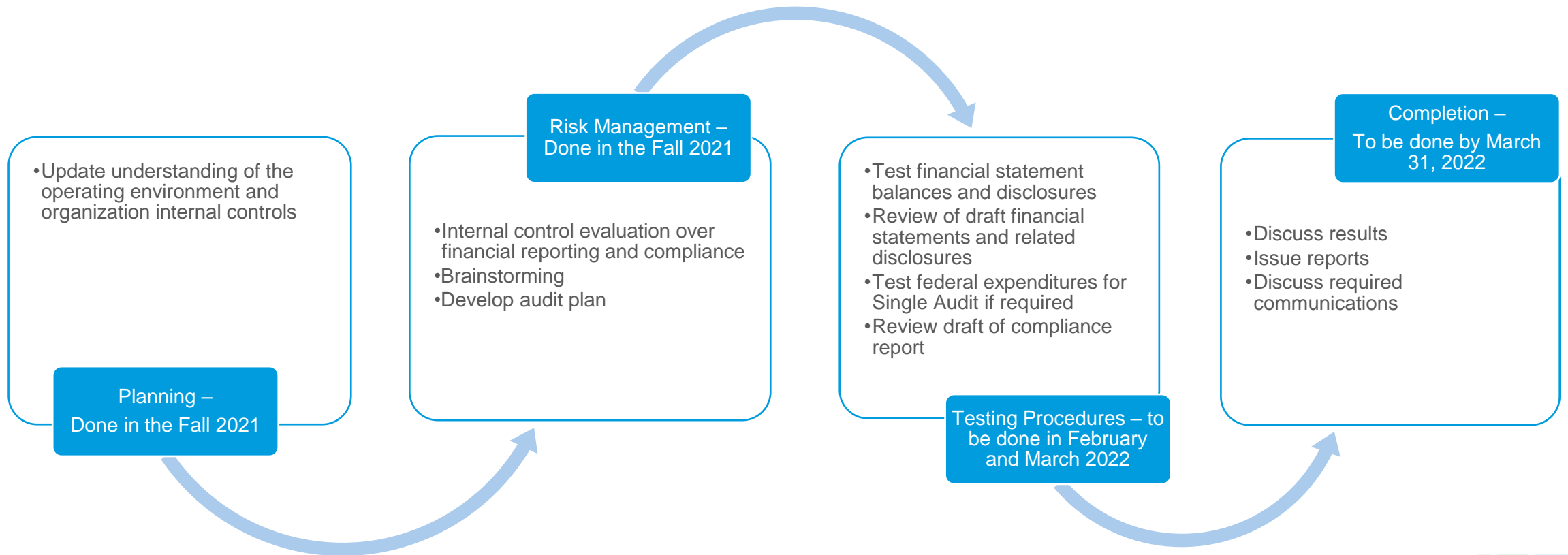
Presented by Kevin Smith, CPA and Kayla Lipston

This communication with the audit committee

- To form an opinion on the fairness of presentation for both the Enterprise Fund and the Post-Employment Health Care Benefits Trust of the Port of Tacoma for the year ended December 31, 2021 in accordance with Government Auditing Standards
- Issue an agreed upon procedures engagement based on 2021 net position to satisfy the requirements of the Environmental Protection Agency
- If expenditures of federal awards exceed required thresholds, perform a Single Audit and form an opinion on the Port's compliance with the federal program
- Provide our audit opinion on the referenced financial statements above for inclusion in the Port's Annual Comprehensive Financial Report; review that document for accuracy prior to submission
- Issue a management letter with recommendations related to the Port's control environment, if necessary

Audit Approach-Status of 2021 audit

- Audit is proceeding as scheduled in the timeline we developed with management



Risk assessment

- Audit risk involves the risk of material misstatement in the financial statements
- Audit is designed to provide reasonable—not absolute—assurance that the financial statements are free of material misstatements
- Audit risk model – assessed at high, medium or low
 - Inherent risk: susceptibility to misstatement
 - Control risk: risk of misstatement not being prevented or detected
 - Detection risk: risk that the auditor will not detect a misstatement
- Audit scope and approach is determined based upon results of risk assessment

Materiality Limit

- The maximum level of misstatement that can be tolerated in the financial statements without causing a reasonable person's judgment about them to be significantly changed or influenced
- Materiality limit is allowance not only for misstatements that will be detected and not corrected but also for misstatements that may not be detected by the audit
- Determination considerations
 - Needs and expectations of users of the financial statements
 - Quantitative and qualitative factors
- Assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations

Evaluation of internal controls

Internal control is a process designed to provide reasonable assurance regarding the achievement of defined objectives

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Five components of internal control

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

Approach to internal control understanding and assessment

Top-down Approach

- Assess entity-level controls and information technology related (general computer) controls
- Identify significant accounts and processes
- Obtain an understanding of internal controls for all main transaction cycles and perform walkthroughs over relevant controls
- Identify internal control deficiencies, if any

Significant accounts and processes

- Billings, cash receipts, and receivables
- Procurement, cash disbursements, and payables
- Lease transactions
- Capital projects
- Treasury and investments
- Debt and related accounts
- Pollution (environmental) remediation obligation and contingencies
- Financial close and reporting
- Information technology (general computer controls)

GASB Pronouncements Effective This Year (2021)

- GASB 87: Leases – Single model for accounting for leases based on the principle that leases are financings of the right of use an underlying asset
 - Lessor: Recognize a lease receivable and a deferred inflow of resources
 - Lessee: Recognize a lease liability and an intangible right-to-use lease asset
- 93: Replacement of Interbank Offered Rates
 - The replacement of IBOR and LIBOR prompts governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates
 - Either by changing the reference rate
 - Changing fallback provisions related to the reference rate

GASB Pronouncements Effective This Year (2021) Continued

- 95: Postponement of the Effective Dates of Certain Authoritative Guidance
 - Postponed the effective dates of certain provisions in statements and implementation guides that first became effective or were scheduled to become effective for periods beginning after June 15, 2018, to provide temporary relief to governments and other stakeholders considering the COVID-19 pandemic

- 98: The Annual Comprehensive Financial Report
 - Modifies the name and reference to the report

GASB Pronouncements Effective In Future Years

- Significant pending pronouncement
 - 92: Omnibus 2020 – Effective in 2022
 - Addresses a variety of topics to enhance the comparability in accounting and financial reporting and improve the consistency of authoritative literature
 - 94: Public-Private and Public-Public Partnerships and Availability Payment Arrangements - Effective in 2023
 - Addresses issues related to public-private and public-public partnership arrangements and the provides guidance for the accounting and financial reporting for availability payments arrangements

GASB Pronouncements Effective In Future Years Continued

- Significant pending pronouncement
 - 96: Subscription - Based Information Technology Arrangements – Effective 2023
 - Addresses the accounting and financial report for subscription-based information technology arrangements.
 - 97: Certain Component Unit Criteria and Accounting and Financial Reporting for IRS Section 457 Deferred Compensation Plans – Effective 2022
 - Amendment to criteria for reporting fiduciary component units and IRS Section 457 Plans

QUESTIONS AND ANSWERS

THANK YOU FOR
YOUR TIME AND
ATTENTION