



Texas Higher Education Coordinating Board

Audit plan and strategy

Financial statements for the year ending August 31, 2019

April 22, 2020

Introduction

To the Agency Operations Committee of the Texas Higher Education Coordinating Board

We are pleased to have the opportunity to meet with you on April 22, 2020 to discuss our audit of the financial statements of Texas Higher Education Coordinating Board (THECB) as of and for the year ended August 31, 2019.

The audit of the financial statements, prepared in accordance with U.S. GAAP, will be conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards (GAS). We plan to issue an auditor report on the financial statements of THECB and required communications between KPMG and the Agency Operations Committee.

This document, which outlines our risk assessment and planned audit strategy, is being provided to you in advance of the meeting to allow you sufficient time to consider the key matters and enhance the quality of our discussions.

We believe the contents of this document should provide a good platform for our discussions when we do meet. We will be pleased to elaborate further on matters covered in this document at the meeting.

Contents

Client service team	3
Risk assessment	4
Audit strategy	7
Planned timeline	9
Responsibilities	10
Required inquiries	14

Client service team



Name and contact details

Susan Warren

Lead Audit Partner
512-320-5185
smwarren@kpmg.com



Name and contact details

Shannon Canals

Lead Audit Manager
512-320-5184
shannoncanals@kpmg.com



Name and contact details

Travis Hunter

Engagement Quality Control
Reviewing Partner
214-840-2117
thunterjr@kpmg.com



Name and contact details

Chris Stone

IT Director
512-320-5127
cstone@kpmg.com



Name and contact details

Abednigo Sibanda

Actuary Director
212-872-3872
abednigosibanda@kpmg.com

Audit approach required communications and other matters summary

Communication topic	Response
Scope of audit	Our audit of the financial statements of THECB as of and for the year ended, August 31, 2019, will be performed in accordance with auditing standards generally accepted in the United States of America.
Risk assessment – Significant risks, estimates, and IT	Management override of controls, assumptions used to calculate the allowance for doubtful student accounts, and evaluation of IT systems. Refer to slide 5 for further detail and our response.
Risk assessment – Other significant audit matters	Other significant audit matters identified relate to: <ul style="list-style-type: none"> — Significant audit area – Valuation and existence of student loans and related balances — Significant audit area – Valuation of debt and compliance with debt covenants — Significant audit area – Completeness, existence, and accuracy of financial assistance expenses and related balances — Significant audit area - Completeness, existence, and accuracy of grants revenues and related balances Refer to slide 6 for further detail and our response.
Materiality	Refer to slide 7 for additional considerations related to the determination of materiality.
Involvement of others	Refer to slide 8 for the extent of planned involvement of others, including: <ul style="list-style-type: none"> — KPMG specialists involved in performance of audit procedures
Planned deliverables and timeline	Refer to slides 9 for an overview of our planned deliverables and timeline.

Risk assessment

Significant risks, estimates, IT	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.	N	Y
Estimates – Appropriateness of assumptions used to calculate the allowance for doubtful student loans.	Y	N
Evaluation of IT Systems – General control environment and application controls are functioning as designed throughout the audit period.	Y	N

Y = Yes

N = No



Risk assessment (continued)

Other significant audit matters	Susceptibility to	
	Error	Fraud
Significant audit area – Valuation and existence of student loans and related balances	Y	N
Significant audit area – Valuation of debt and compliance with debt covenants	Y	N
Significant audit area – Completeness, existence, and accuracy of financial assistance expenses and related balances	Y	N
Significant audit area – Completeness, existence, and accuracy of grants revenues and related balances	Y	N

Y = Yes N = No

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:

Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.

Information is material if its misstatement or omission could reasonably be expected to influence the economic decisions of users taken on the basis of 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 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.

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.

Involvement of others

Audit of financial statements	Plan to involve?	Extent of planned involvement
KPMG Actuary Specialist	Y	Review the actuary valuation and related assumptions for reasonableness

Y = Yes N = No

Planned deliverables and timeline

January to April 2020

- Obtain signed engagement letter from management
- Identify key members of the engagement team
- Present audit plan to the Agency Operations Committee
- Inquire of the Agency Operations Committee, management, and others within THECB about risks of material misstatement
- Determine involvement of specialists

May to July 2020

- Complete remaining substantive audit procedures
- Review financial statement disclosures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Obtain written representations from management
- Present audit results to the Agency Operations Committee and perform required communications
- Issue audit reports on financial statements

April to May 2020

- Determine materiality and plan audit approach
- Obtain an understanding of THECB and its environment
- Perform analytical procedures
- Conduct a discussion among engagement team regarding the risks of material misstatement
- Review board minutes
- Evaluate design and implementation of entity-level controls
- Perform process walkthroughs and identification of process risk points for certain processes
- Evaluate design and implementation and operating effectiveness of process level controls for certain processes
- Identify risks of misstatement for certain processes
- Assess risks of material misstatement and plan audit response for certain processes
- Identify and understand service organizations
- Identify IT applications and environments
- Evaluate design and implementation of general IT controls and application controls
- Evaluate control deficiencies identified to date
- Perform substantive audit procedures

Responsibilities

Management responsibilities – Financial statements	<ul style="list-style-type: none"> — Fairly presenting the financial statements, including disclosures in conformity with U.S. GAAP — Adjusting the financial statements to correct material misstatements and affirming in the representation letter that the effects of any uncorrected misstatements aggregated by us are immaterial, both individually and in the aggregate, to the financial statements taken as a whole
Management responsibilities – Other	<ul style="list-style-type: none"> — To provide us with: <ol style="list-style-type: none"> 1) access to all information of which management is aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters; 2) additional information that we may request from management for the purpose of the audit; and 3) unrestricted access to persons within THECB from whom we determine it necessary to obtain audit evidence — Identifying and ensuring that THECB complies with laws and regulations applicable to its activities, and for informing us of any known material violations of such laws and regulations — Providing us with a letter confirming certain representations made during the audit, that includes but is not limited to management's: <ol style="list-style-type: none"> 1) disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect THECB's financial reporting 2) acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud
Agency Operations Committee responsibilities	<ul style="list-style-type: none"> — Oversight of the financial reporting process and internal control over financial reporting (ICFR) — Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud

The financial statement audit does not relieve management or the Agency Operations Committee of their responsibilities.

Responsibilities (continued)

Management and the Agency Operations Committee responsibilities	<ul style="list-style-type: none"> — Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards — Ensuring that THECB’s operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in THECB’s financial statements.
KPMG – Audit objectives	<ul style="list-style-type: none"> — Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Agency Operations Committee are prepared, in all material respects, in accordance with U.S. GAAP
KPMG responsibilities – Audit	<ul style="list-style-type: none"> — Performing the audit in accordance with U.S. GAAS and that the audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement — Performing an audit of financial statements includes consideration of ICFR as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of THECB’s ICFR
KPMG responsibilities – Other information in documents containing financial statements	<ul style="list-style-type: none"> — The auditors’ report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information — Our responsibility is to make appropriate arrangements with management or the Agency Operations Committee to obtain information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or misstatement of facts — Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors’ report or withdrawing from the engagement — Communicate any procedures performed relating to the other information and the results of those procedures

Responsibilities (continued)

KPMG responsibilities – Communications

- Communicating significant matters related to the financial statement audit that are in our professional judgment, relevant to the responsibilities of the Agency Operations Committee in overseeing the financial process. U.S. GAAS does not require us to design procedures for the purpose of identifying matters to communicate to the Agency Operations Committee
- Communicating if we suspect or identify noncompliance with laws and regulations exist, unless matters are clearly inconsequential
- Communicating to management and the Agency Operations Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit, including those that were remediated during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management's attention. The objective of our audit of the financial statements is not to report on THECB's internal control
- Conducting the audit in accordance with professional standards and complying with the rules and responsibility of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the official standards of relevant CPA Societies, and relevant state boards of accountancy
- Communicating to the Agency Operations Committee circumstances, if any, that affect the form and content of the auditors' report
- Communicating if we plan to withdraw from the engagement and the reasons for the withdrawal
- Communicating to the Agency Operations Committee if we conclude 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
- When applicable, we are also responsible for communicating particular matters required by law or regulation, by agreement with THECB, or by additional requirements applicable to the engagement

Responsibilities (continued)

KPMG responsibilities – Communications (continued)

- Communicating if we have identified or suspect fraud involving: (a) management, (b) employees who have significant roles in internal control, (c) others, when the fraud results in a material misstatement in the financial statements, and (d) other matters related to fraud that are, in our professional judgment, relevant to the responsibilities of the Agency Operations Committee
- Communicating significant findings and issues arising during the audit in connection with the Company's related parties
- Communicating conditions and events, considered in the aggregate, that raise substantial doubt about THECB's ability to continue as a going concern for a reasonable period of time

Required inquiries

The following inquiries are required in accordance with AU-C 260:

Agency Operations Committee inquiries	<ol style="list-style-type: none">1. Is the Agency Operations Committee aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws and regulations?2. What are the Agency Operations Committee's views about fraud risks in THECB?3. Does the Agency Operations Committee have knowledge of fraud, alleged fraud, or suspected fraud affecting THECB?4. Who is the appropriate person (Agency Operations Committee chair or full Board) for communication of audit matters during the audit?5. How are responsibilities allocated between management and the Agency Operations Committee?6. What are THECB's objectives and strategies and related business risks that may result in material misstatements?7. Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken?8. Is the Agency Operations Committee aware of any significant communications with regulators?9. What are the Agency Operations Committee's attitudes, awareness, and actions concerning (a) the entity's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud?10. Is the Agency Operations Committee aware of any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters?
--	---



Questions?

For additional information and Audit Committee resources, including upcoming events, a Quarterly webcast, and suggested publications, please visit KPMG's Audit Committee Institute (ACI) at www.kpmg.com/ACI.

This presentation to the Agency Operations Committee is intended solely for the information and use of the Agency Operations Committee 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.



kpmg.com/socialmedia

© 2019 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. NDPPS 907247

The KPMG name and logo are registered trademarks or trademarks of KPMG International.