



Texas Higher Education Coordinating Board Discussions with the Agency Operations Committee

Audit plan and strategy for the year ending August 31, 2021

April 27, 2022



Our commitment to you

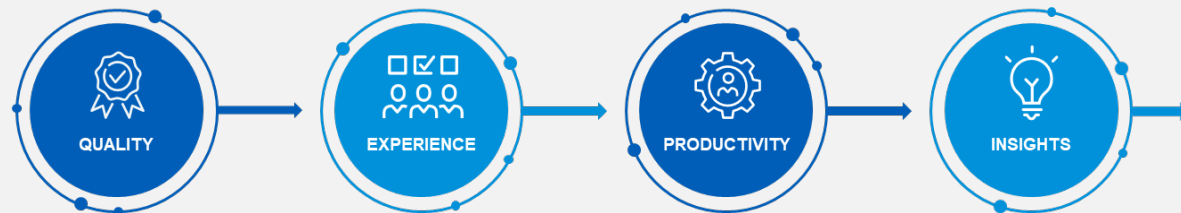


Delivering a better audit experience drives us.

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.

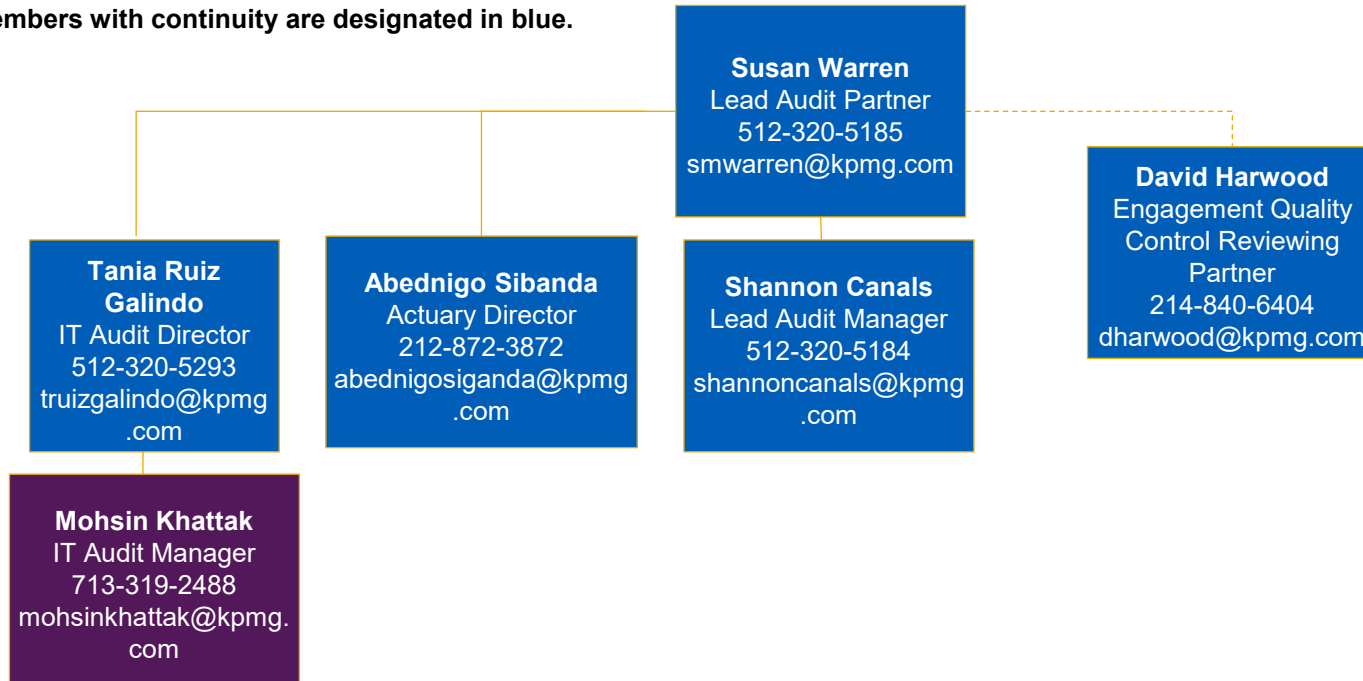
See patterns in what has passed. See where risks may emerge. See opportunities emerge. See opportunities to optimize processes. And see ahead to new possibilities.

We aim to deliver an exceptional client experience for Texas Higher Education Coordinating Board by focusing on:



Client service team

Team members with continuity are designated in blue.



Diversity, Equity, and Inclusion

Accelerate 2025: Driving Meaningful Change



Chair and CEO
Paul Knopp

“Diversity, Equity and Inclusion are foundational to KPMG’s purpose, values and strategy. I have witnessed incredible change and significant progress throughout my 37-year career, but it has not been nearly enough—as a society, as a profession and as a firm.”



Chief DEI Officer
Elena Richards

“We believe we have a responsibility to make KPMG a place where all of our people can grow and thrive, and are committed to that vision. Our vision.”

Our 2025 Goals



- › 50 percent of our Partners and Managing Directors from under-represented groups, including a doubling of Black representation
- › 50 percent increase of Black and Hispanic/Latinx representation in our workforce
- › Significant increase in representation from under-represented groups in client and firmwide leadership roles

Read our first U.S. Diversity, Equity & Inclusion Transparency Report: read.kpmg.us/diversity



Required Agency Operations Committee Communications

Prepared on: February 23, 2022

Presented on: April 27, 2022



Summary: Audit approach required communications and other matters

		Response
Planning & risk assessment	Role and identity of engagement partner	The lead audit engagement partner is Susan Warren.
	Significant findings or issues discussed with management	No matters to report.
	Scope of audit	Our audit of the consolidated financial statements of Texas Higher Education Coordinating Board (HECB) as of and for the year ended August 31, 2021, will be performed in accordance with auditing standards generally accepted in the United States of America. Performing an audit of financial statements includes consideration of internal control over financial reporting (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 the entity's ICFR.
	Materiality in the context of an audit	See slide 6
	Our timeline	See slide 7
	Risk assessment: Significant risks	See slide 8
	Risk assessment: Additional risks identified	See slide 9-10
	Involvement of others	See slide 11
	Independence	See slide 12
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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.

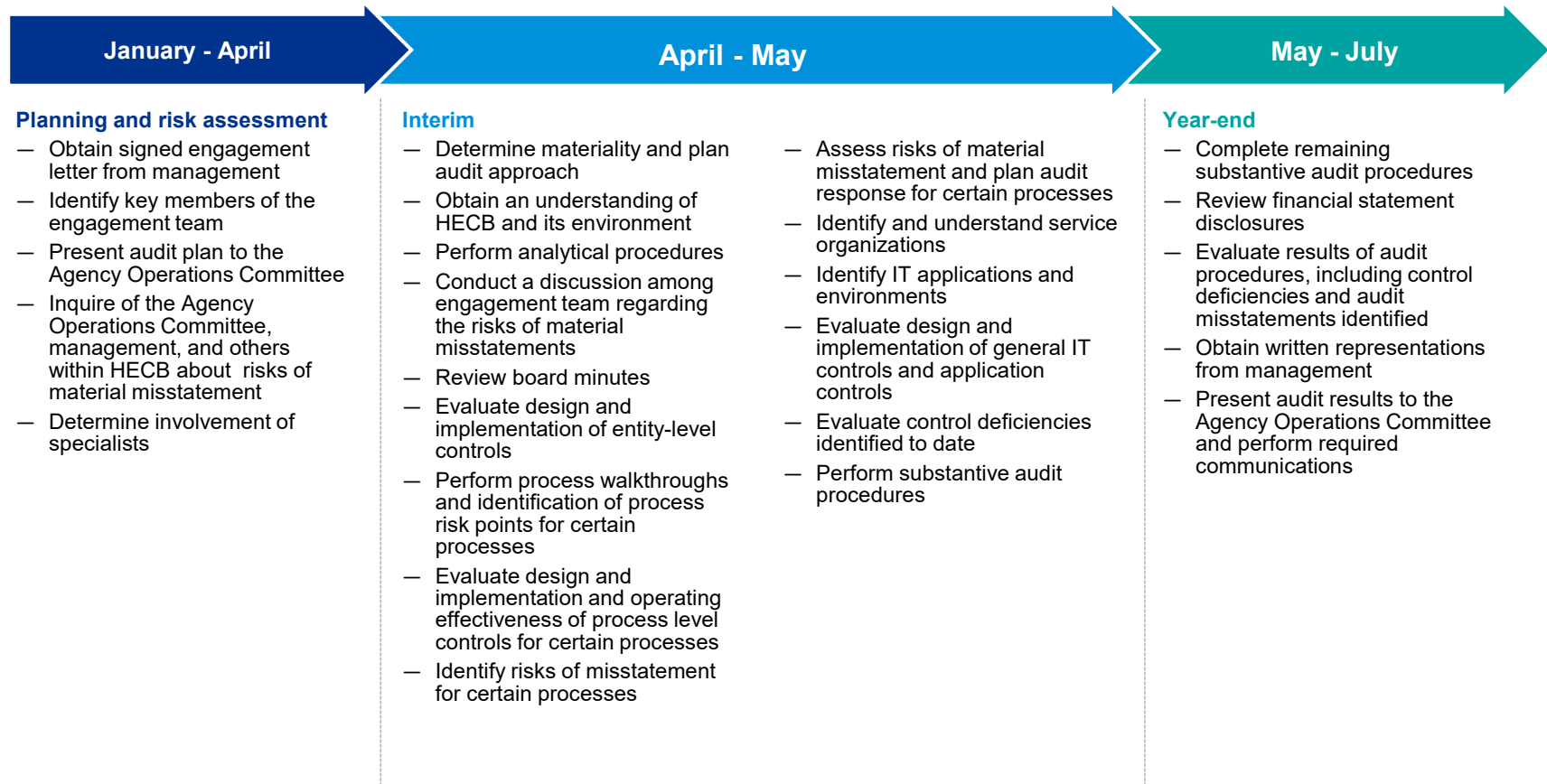
Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

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



June 2022: Issue audit reports on financial statements.

Risk assessment: Significant risks/matters

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.

Estimates

Appropriateness of assumptions used to calculate the allowance for doubtful student loans, OPEB and Pension Obligations.

Evaluation of IT Systems

General Control environment and application controls are functioning as designed throughout the audit period.

Susceptibility to:

Error

Fraud

No

Yes

Yes

No

Yes

No

Risk assessment: Additional risks identified

Additional risks identified	Relevant factors affecting our risk assessment and planned response
<p>Significant audit area – Valuation and existence of student loans and related balances</p>	<p>Interest and investment income, Interest receivable, SLNR and financial assistance - loans are all routine in nature as they represent the HECB's primary business. Estimation is not involved in the issuance and recording of loan payments or interest so CEA are lower risk. However, estimation is involved in the valuation of the allowance for doubtful accounts, there is a higher volume of transactions in the accounts, and the dollar value is material to the financial statements.</p>
<p>Significant audit area – Valuation of debt and compliance with debt covenants</p>	<p>HECB finances its loan programs via borrowing by issuing bonds and student loan related income. Estimation is not involved in the recording of debt and amounts can be traced to debt agreements and schedules. However, the dollar value is material to the financial statements.</p>
<p>Significant audit area – Completeness, existence and accuracy of financial assistance expenses and related balances</p>	<p>Expenditures are made under grant programs via disbursement to education institutions. The dollar value of the financial assistance expense are material to the financial statements and there is a direct correlation between expenses, revenue and cash.</p>
<p>Significant audit area – Completeness, existence, and accuracy of grant revenues and related balances</p>	<p>HECB's most significant revenue source is appropriations for grant programs derived by the State. Although there are no major changes in the appropriations and related grant programs year-over-year, we note the dollar value is material to the financials.</p>

Our approach to fraud risk

Quality in all that we do

- **Audit quality remains our highest priority and is critical to fulfilling our role in the capital markets.**
- **To deliver on our audit quality commitment, we are focused on consistently planning and executing our audits, in line with the requirements of applicable professional standards within a strong system of quality control.**
- **Core to actions to drive quality are a culture of integrity, innovation, including our smart audit platform KPMG Clara, and nurturing and supporting our talented professionals.**

- Financial fraud can be complex and sophisticated and it is essential that businesses, the Agency Operations Committee, and their auditors assess the risk of financial fraud and respond accordingly.
- The auditors' responsibility is to plan and perform an audit to provide reasonable assurance that material misstatements are detected, whether caused by error or fraud.
- At KPMG, we are focused on exercising professional skepticism, and executing fundamental audit procedures and collating evidence, aligned with the professional standards, to seek to detect material misstatement as a result of fraud.
 - We share our planned audit approach and responses with the Agency Operations Committee every year.
 - We perform risk assessments, including conducting interviews within the company, assessing management's fraud risk, and running analytical procedures, as appropriate under the standards.
 - And when fraud risk is identified, we perform incremental procedures at the highest level of risk.
- As part of our commitment to sustaining audit quality, we recognize nothing remains static. We are committed to continually improving the quality, consistency, and efficiency of our audits, enabled by our technology, including our approach to fraud risk.

Involvement of others

Audit of financial statements

KPMG Actuary Specialist

Extent of planned involvement

Review the actuary valuation and related assumptions for reasonableness

Shared responsibilities: Independence

Auditor independence is a shared responsibility and most effective when management, the Agency Operations Committee 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, the Agency Operations Committee, 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)

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

KPMG responsibilities – Objectives



- Communicating with Agency Operations Committee the responsibilities of the auditor regarding the financial statement audit and an overview of the planned scope and timing of the audit.
- Obtaining from the Agency Operations Committee information relevant to the audit.
- Providing the Agency Operations Committee 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 the Agency Operations Committee
- Communicating effectively with management and third parties.

KPMG responsibilities – Other



- If we conclude that 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, we should:
 - Withdraw from the audit engagement when possible under applicable law or regulation,
 - Communicate the circumstances to the Agency Operations Committee, and
 - Determine whether any obligation, either legal contractual, or otherwise, exists to report the circumstances to other parties, such as owners, or regulators.
- 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 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.

Inquiries

The following inquiries are in accordance with AU-C 260

Is the Agency Operations Committee aware of:

1. Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations?
2. Any significant communications with regulators?
3. 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?

Does the Agency Operations Committee have knowledge of:

1. Fraud, alleged fraud, or suspected fraud affecting HECB?
 - If so, have the instances been appropriately addressed and how have they been addressed?

Additional inquiries:

1. What is the Agency Operations Committee's views about fraud risks at HECB?
2. Who is the appropriate person (Agency Operations Committee chair or full committee) for communication of audit matters during the audit?
3. How are responsibilities allocated between management and the Agency Operations Committee?
4. What are HECB's objectives and strategies and related business risks that may result in material misstatements?
5. Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken?
6. What are the Agency Operations Committee's attitudes, awareness, and actions concerning (a.) HECB's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b.) detection of or possibility of fraud?
7. Have there been any actions taken based on previous communications with the auditor?
8. Has HECB entered into any significant unusual transactions?
9. Whether HECB is in compliance with other laws and regulations that have a material effect on the financial statements?

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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