



Texas Higher Education Coordinating Board

Discussion with the Agency Operations Committee

Audit plan and strategy for the year ending August 31, 2023

April 24, 2024



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We aim to deliver an exceptional client experience by focusing on:



Quality



Experience



Productivity



Insights

See how. 

Key themes for our discussion



Required communications



Scope of the audit



Key risks and our Audit Plan



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Client service team

Team members with continuity are designated in blue.



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Required communications to those charged with governance

[Prepared on: March 25, 2024]

[Presented on: April 24, 2024]



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Audit plan required communications and other matters

Our audit of the consolidated financial statements of the Texas Higher Education Coordinating Board (the Company) as of and for the year ended August 31, 2023, 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.

Matters to communicate		Response
Role and identity of engagement partner	✓	Lead audit engagement partner is: Susan Warren
Significant findings or issues discussed with management	X	
Audit participants and strategy	X	
Materiality in the context of an audit	✓	Page 7
Our timeline	✓	Page 8
Risk assessment: Significant risks	✓	Page 9
Risk assessment: Significant audit areas	✓	Page 10
Involvement of others	✓	Page 11
Newly effective accounting standards	X	
Independence	✓	Pages 12
Responsibilities	✓	Pages 13
Inquiries	✓	Page 14

✓ = Matters to report X = No matters to report



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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 <ol style="list-style-type: none"> Determining the nature and extent of risk assessment procedures; Identifying and assessing the risks of material misstatement; and Determining the nature, timing, and extent of further audit procedures.



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Our timeline

Fall 2023 – April 2024

Planning and risk assessment

- Planning and initial risk assessment procedures, including:
 - Involvement of others
 - Identification and assessment of risks of misstatements and planned audit response for certain processes
- Obtain and update an understanding of the Company and its environment
- Inquire of those charged with governance, management and others within the Company about risks of material misstatement
- Coordinate with Internal Audit
- Evaluate design and implementation (D&I) of entity level controls and process level controls for certain processes
- Communicate audit plan
- Identify IT applications and environments, begin GISC and application control testing

April – May 2024

Substantive procedures

- Ongoing risk assessment procedures, including:
 - Identification and assessment of risks of misstatements and planned audit response for remaining processes
- Evaluate design and implementation (D&I) of entity level controls and process level controls
- Perform tests of operating effectiveness (TOE) of relevant entity level and process level controls
- Perform process walkthroughs and identification of process risk points for remaining processes
- Evaluate D&I of general IT and automated controls
- Perform TOE of relevant process level, general IT, and entity-level controls, where applicable
- Evaluate control deficiencies identified to date
- Perform substantive audit procedures

June 2024

Completion

- Perform remaining substantive audit procedures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Review financial statement disclosures
- Present audit results to those charged with governance and perform required communications

June 2024: Issue audit reports on financial statements.

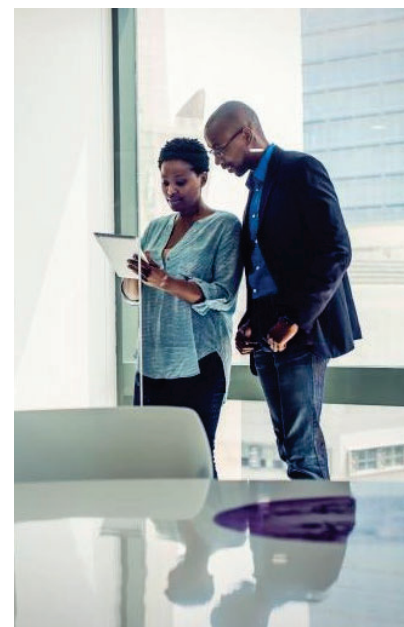


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Risk assessment: Significant risks

Significant risk	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.		Yes
Capacity and/or Sustainability of THECB Personnel THECB is executing several significant strategic objectives for its constituents as well as operational matters which all require additional effort to complete within the required timeframes.	Yes	



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Risk assessment: Additional risks identified

Other significant audit matters	Relevant factors affecting our risk assessment
Valuation and existence of student loans and related balances	Interest and investment income, interest receivable, SLNR and financial assistance – SLNR are all routine in nature as they represent the THECB's primary business. Estimation is not involved in the issuance and recording of loan payments or interest. 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.
Existence and accuracy of debt and compliance with debt covenants	THECB finances its loan programs by issuing bonds. 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.
Completeness, existence and accuracy of financial assistance expenses and related balances	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.
Completeness, existence, and accuracy of grant revenues and related balances	THECB'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.
OPEB and Pension Obligations	THECB records their portion of the OPEB and pension obligations as allocated by the State of Texas. The dollar value is material to the financial statements.
Evaluation of the IT systems	THECB relies on various computer systems (MIP, BMS, CRS, Helms) as the book of record of the respective transactions. The general control environments and application controls are reviewed for appropriateness of design and effectiveness.



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Involvement of others

Audit of financial statements	Extent of planned involvement
Internal Audit	Assist with execution of certain substantive audit procedures.
KPMG actuary specialists	Review the actuary valuation and related assumptions for reasonableness for the OPEB and pension obligations.



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Shared responsibilities: Independence

Auditor independence is a shared responsibility and most effective when management, those charged with governance 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, those charged with governance, 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)
- New officers or directors with the ability to affect decision-making, individuals who are beneficial owners with significant influence over the Company, and persons in key positions with respect to the preparation or oversight of the financial statements

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.



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Responsibilities



Management responsibilities

- Communicating matters of governance interest to those charged with governance.
- The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.



KPMG responsibilities – objectives

- Communicating clearly with those charged with governance the responsibilities of the auditor regarding the financial statement audit and an overview of the planned scope and timing of the audit.
- Obtaining from those charged with governance information relevant to the audit.
- Providing those charged with governance 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 those charged with governance.
- 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 those charged with governance, 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 those charged with governance, 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.
- Communicating any procedures performed relating to other information, and the results of those procedures.



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Inquiries

Are those charged with governance aware of:

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

Do those charged with governance have knowledge of:

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

Additional inquiries:

- What are those charged with governance's views about fraud risks in the Company?
- Who is the appropriate person in the governance structure for communication of audit matters during the audit?
- How are responsibilities allocated between management and those charged with governance?
- What are the Company's objectives and strategies and related business risks that may result in material misstatements?
- Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken?
- What are those charged with governance's attitudes, awareness, and actions concerning (a.) the Company's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b.) detection of or possibility of fraud?
- Have there been any actions taken based on previous communications with the auditor?
- Has the Company entered into any significant unusual transactions?
- Whether the entity is in compliance with other laws and regulations that have a material effect on the financial statements?
- What are the other document(s) that comprise the annual report, and what is the planned manner and timing of issuance of such documents?



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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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