



Texas Municipal Retirement System

**Audit plan for the year ended December 31, 2016
March 30-31, 2017**

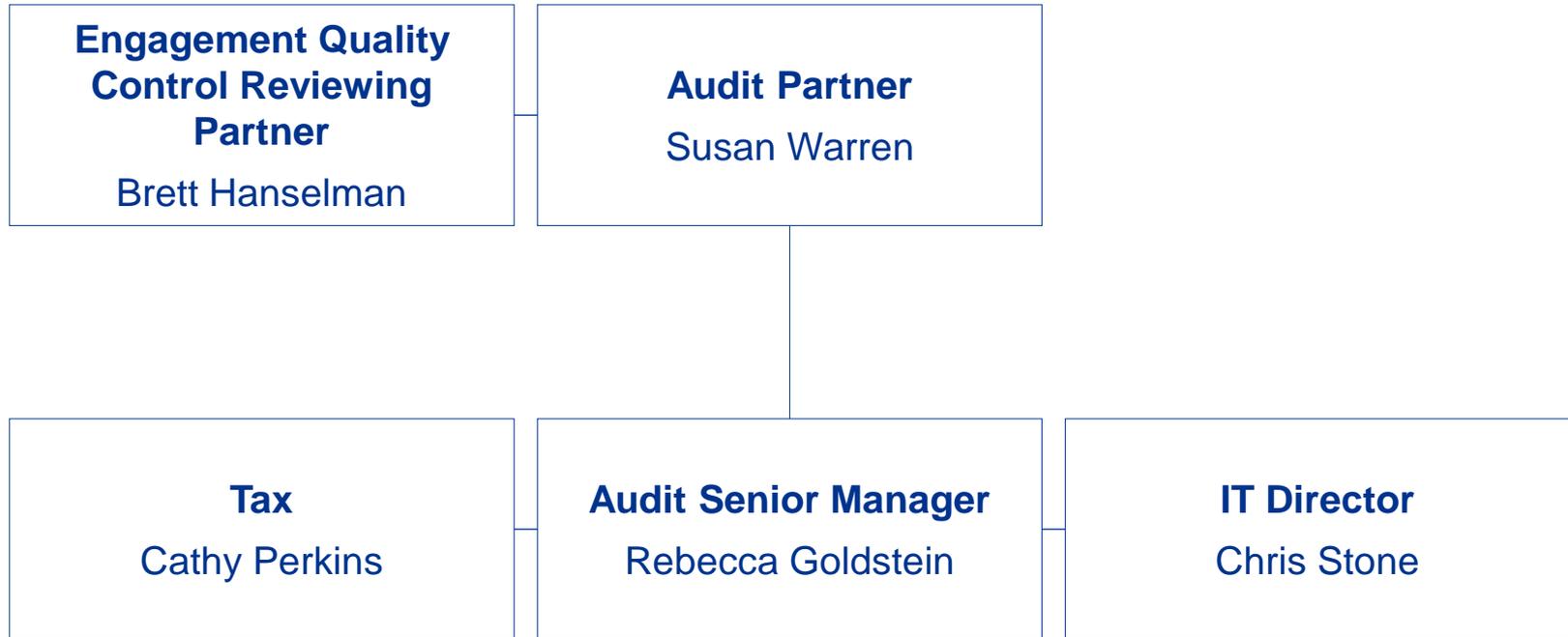
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Agenda

1. Client service team
2. Objective of an audit
3. Responsibilities
4. KPMG's audit approach and methodology
5. Risk assessment
6. Audit plan
 - Scope
 - Materiality
 - Deliverables and timeline
 - Auditing and accounting matters
 - Involvement of others
7. New accounting pronouncement, *GASB 72, Fair Value Measurement and Application*

Client Service Team



Objective of an Audit

1. The objective of an audit of financial statements is to enable the auditor to express an opinion about whether the financial statements that have been prepared by management with the oversight of the Board of Trustees are presented fairly, in all material respects, in conformity with generally accepted accounting principles (GAAP).
2. We plan and perform the audit to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether from error or fraud.
3. Our audit includes:
 - Performing tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement to provide a reasonable basis for our opinion.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluating the overall financial statement presentation.

Management Responsibilities

1. Adopting sound accounting policies.
2. Fairly presenting the financial statements, including disclosures, in conformity with GAAP.
3. Establishing and maintaining effective internal control over financial reporting (ICFR).
4. Identifying and confirming that TMRS complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations.
5. Making all financial records and related information available to the auditor.
6. Providing unrestricted access to personnel within the entity from whom the auditor determines it necessary to obtain audit evidence.
7. Adjusting the financial statements to correct material misstatements.
8. Providing the auditor with a letter confirming certain representations made during the audit that includes, but are not limited to management's:
 - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect TMRS' financial reporting.
 - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent and detect fraud.
 - Affirming that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate to the financial statements taken as a whole.

Board of Trustees Responsibilities

The Board of trustees is responsible for:

- Oversight of the financial reporting process.
- Oversight of the establishment and maintenance by management of programs and internal controls designed to prevent, deter, and detect fraud.

Management and the board of trustees are responsible for:

- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards.

The audit of the financial statements does not relieve management or the Board of Trustees of their responsibilities.

KPMG Responsibilities

1. Forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of the Board of Trustees, are presented fairly, in all material respects, in conformity with GAAP.
2. Planning and performing the audit with an attitude of professional skepticism to obtain reasonable – not absolute – assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Because of the nature of audit evidence and the characteristics of fraud, we are able to obtain reasonable, but not absolute, assurance that material misstatements will be detected. Our audit is not designed to detect error or fraud that is immaterial to the financial statements.
3. Conducting the audit in accordance with professional standards and complying with the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy.
4. Evaluating ICFR as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR.
5. Communicating to management and the Board of Trustees all required information, including significant matters.
6. Communicating to management and the Board of Trustees in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention.

Responsibilities for Other Information in Documents Containing Audited Financial Statements

1. The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information. Other information includes Management's Discussion and Analysis (MDA), Introductory, Investment, Actuarial, Statistical, and Other Supplementary Information Schedules.
2. We are required to:
 - Read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact, and
 - Make appropriate arrangements with management or the Board of Trustees to obtain the other information prior to the report release date.
3. 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.

KPMG's Audit Approach and Methodology

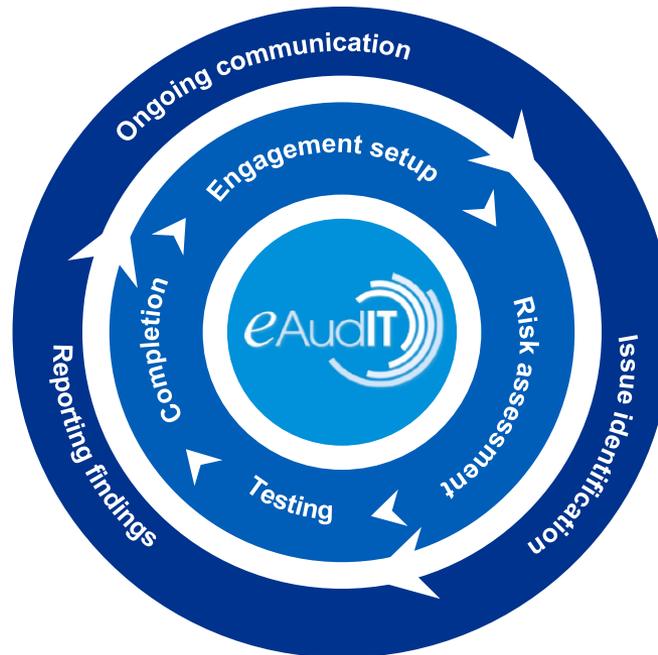
Technology enabled audit work flow

Engagement setup

- Tailor the eAudit work flow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Update risk assessment
- Perform overall evaluation of results and the financial statements
- Form and issue audit opinion on the financial statements
- Obtain written representations from management
- Required Board of Trustees communications
- Debrief audit process



Risk assessment

- Understand your business and financial processes
- Identify significant risks
- Plan involvement of specialists and others including experts, and service organizations
- Determine audit approach
- Evaluate design and implementation of your internal controls

Testing

- Test effectiveness of internal controls, as applicable
- Perform substantive tests

Risk Assessment

Significant audit areas	Significant estimates	Significant unusual transactions/other items	Information technology matters
<ul style="list-style-type: none"> ➤ Valuation and existence of investments, including alternative investments and securities lending, and related balances ➤ Completeness, existence, and accuracy of contributions and related balances ➤ Completeness, existence, and accuracy of benefit payments and related balances ➤ GASB 67 schedule 	<ul style="list-style-type: none"> ➤ No significant estimates 	<ul style="list-style-type: none"> ➤ Commitments and contingent liabilities 	<ul style="list-style-type: none"> ➤ General information technology environment ➤ Application controls <ul style="list-style-type: none"> ➤ Next Gen

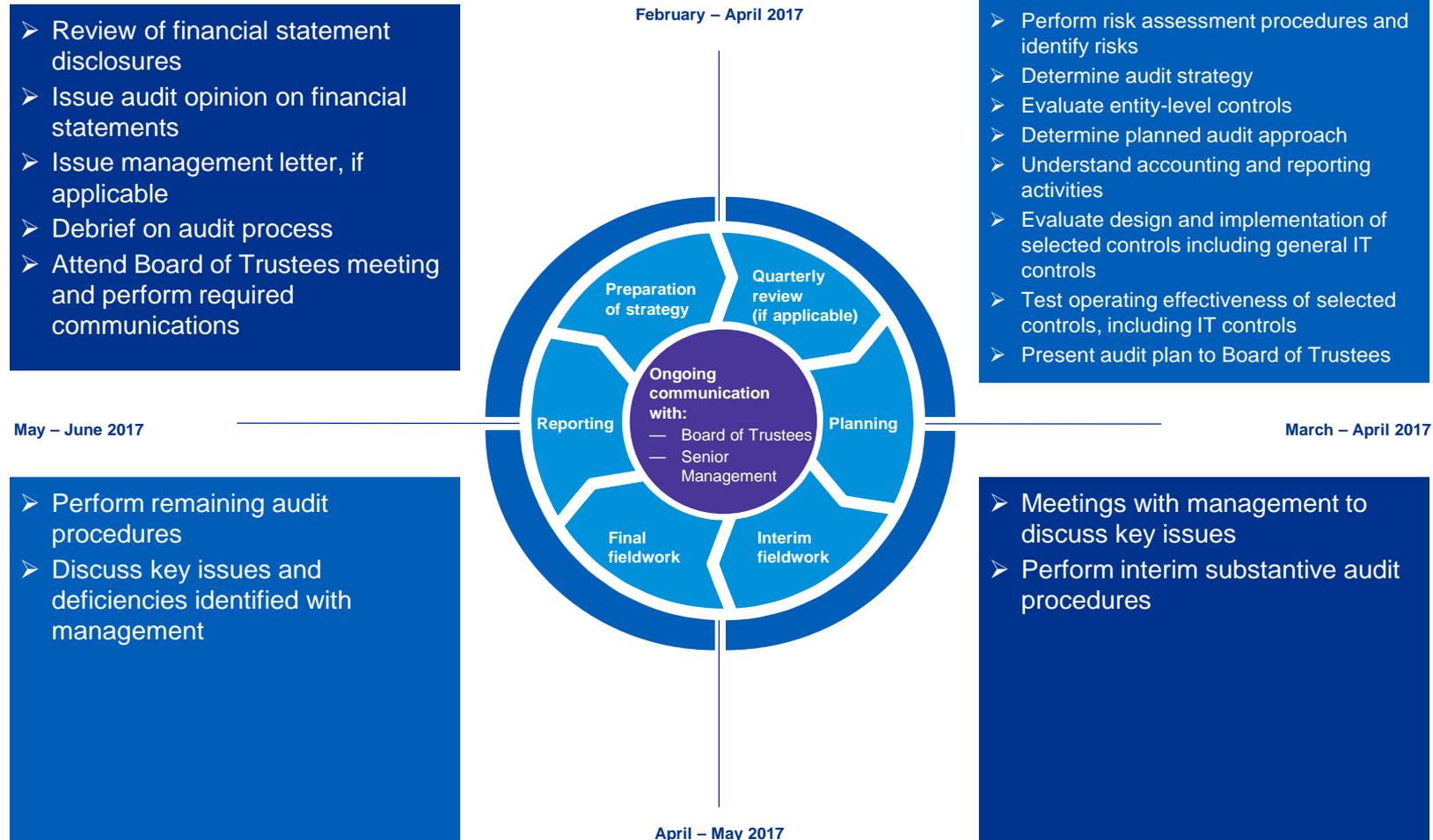
Scope

Scope of work	<i>Texas Municipal Retirement System Financial Statements for the year ended December 31, 2016</i>
Applicable financial reporting framework	<i>U.S. Generally Accepted Accounting Principles (GAAP) which includes GASB for TMRS</i>
Applicable auditing standards	<i>Standards of the AICPA</i>
Other terms of engagement	<i>Management Letter, if applicable SAS 114 communication</i>
	<i>SOC 1 Report on the Suitability of the Design and Operating Effectiveness of Controls for the period May 1, 2016 to April 30, 2017</i>

Materiality

1. 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.
2. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
3. 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.
4. 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.

Deliverables and Timeline



Auditing and Accounting Matters

Other matters for discussion with the board of trustees include their views:

1. Is The Board Chair The Appropriate Person For Communication Of Audit Matters During The Audit?
2. Any Changes To The Allocation Of Responsibilities Between Management And The Board Of Trustees?
3. Have There Been Any Significant Changes To The TMRS' Objectives And Strategies And Related Business Risks That Would Affect The Audit?
4. Any Additional Areas That Warrant Particular Attention During The Audit?
5. Any Significant Communications With Regulators?
6. What Are The Board's Attitudes, Awareness, And Actions Concerning (A) TMRS' Internal Controls And Its Importance In TMRS, Including Oversight Of Effectiveness Of Internal Controls, And (B) Detection Of Or Possibility Of Fraud?
7. Any Matters Relevant To The Audit, Including But Not Limited To, Violations Or Possible Violations Of Laws Or Regulations?
8. Any Board Actions In Response To Developments In Law, Accounting Standards, Corporate Governance, And Other Related Matters?

Involvement of Others

Service organizations	<i>State Street</i>
Significant account/disclosure	<i>Investments and related income accounts</i>
Description of services	<i>Safekeeping and trust services</i>
Audit procedures	<i>Obtain the 2016 SOC1 reports and review of qualifications or exceptions that could impact the planned audit approach for TMRS</i>

New Accounting Pronouncements

GASB 72, Fair Value Measurement and Application

1. Minimal to no affect on the valuation of the investments themselves.
2. Primary change will be in the required footnote disclosures.
 - Leveling tables like you would see in FASB financials.
 - Net asset value (NAV) investments are excluded from leveling.
 - Descriptions of each investment type and variety of disclosures for NAV.



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