



**Investment Office**

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March 1, 2010

Via E-Mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

J. Gordon Seymour  
Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street N.W.  
Washington, DC 20006-2803

**Re: PCAOB Release No. 2009-007 Rulemaking Docket Matter No. 026**  
"Proposed Auditing Standards Related to the Auditor's Assessment of and  
Response to Risk and Related Amendments to PCAOB Standards"

Dear Mr. Seymour:

I am writing on behalf of the California Public Employees' Retirement System (CalPERS), the largest public pension fund in the United States with approximately \$200 billion in global assets and equity holdings in over 9,000 companies. CalPERS provides retirement benefits to over 1.5 million public workers, retirees, and their families and beneficiaries. Acting as fiduciaries to the members of the system, the CalPERS Board of Administration and its staff invest the pension funds of its members over the long term throughout the global capital markets.

CalPERS philosophy is to promote best practices that facilitate integrity in financial reporting. The financial interests of CalPERS beneficiaries are most effectively served in an environment where investors can confidently utilize financial statements to evaluate the risk and reward of an investment. Auditors play a key role in decreasing the risk of material misstatements in financial reports. An effective audit provides the investor with assurance that the financial statements present reliable and valid information which conform to the Generally Accepted Accounting Principles (GAAP). As such, CalPERS supports the Public Company Accounting Oversight Board's mission to reduce audit risk by improving the existing framework for performing audits.

The Public Company Accounting Oversight Board (Board) has repropoed seven auditing standards intended to enhance the effectiveness of auditor's assessment of and response to risk which would be effective for audits of the

fiscal years beginning on or after December 15, 2010. The Board has considered comments from issuers, auditors, institutions, regulatory agencies, professional associations and academia in refining the original proposed standards. CalPERS applauds the Board's willingness to engage in open dialogue and incorporate feedback into the proposed standards.

On February 18, 2009, CalPERS responded in support of the Board's efforts to strengthen audit quality. CalPERS endorsed improved requirements related to risk assessment, further integration of the audit of financial statements with the audit of internal control over financial reporting and increased discussion of the auditor's responsibility to consider the risk of fraud during the audit. The response also contained a set of guidelines developed by the Enhanced Disclosure Working Group of The Global Auditor Investor Dialogue to support enhanced disclosures relating to risk controls and the global convergence of best practices. Notably, the reproposal discusses the Board's thoughts on the issues of fraud and convergence in the context of commenter feedback. In this context, CalPERS provides the following:

#### Fraud

CalPERS is pleased to see that the Board's repropose standards continue to refine the language addressing areas of interest identified in the aforementioned response letter. Specifically, we continue to emphasize the auditor's responsibilities for considering the risk of fraud during an audit. We continue to support the approach the Board has taken with AU sec. 316, Consideration of Fraud in a Financial Statement and agree that this section will reinforce to the auditor the importance of performing a thorough evaluation of risks of material misstatement due to fraud as an integral part of the audit process.

#### Convergence

CalPERS commends the Board for presenting a comprehensive comparison of the proposed standards to the analogous standards of the International Auditing and Assurance, the Auditing Standards Board, and the American Institute of Certified Public Accountants. Acknowledging the regulatory constraints of Sarbanes-Oxley, we support a convergence of the existing auditing standards. The global nature of CalPERS investments requires frequent cross-border comparisons of investment opportunities. Harmonized standards promote investor confidence in the quality and comparability of all financial statements. We are pleased to see the repropose standards have eliminated additional differences between the original proposed standards and the IAASB standards. CalPERS also recommends that the Board continues to thoughtfully pursue the goal of convergence.

As outlined in the “Enhanced Disclosures”<sup>1</sup>, CalPERS continues to emphasize the importance of thorough and complete interchange of substantive information between management, the audit committee and the auditor in identifying and assessing the risks of material misstatement and the risk of fraud. Shareowners and investors rely heavily on the audit committee communicating that it has received sufficient, reliable and timely information from management in fulfilling its responsibilities and fiduciary duty to the owners of the company.

Thank you for considering our comments. If you would like to discuss any of these points, please do not hesitate to contact me at (916) 795-9672 or Mary Hartman Morris at (916) 795-4129.

Sincerely,

A handwritten signature in black ink that reads "Anne Simpson". The signature is written in a cursive, flowing style.

ANNE SIMPSON  
Senior Portfolio Manager  
Global Equity

cc: Joseph A. Dear, Chief Investment Officer – CalPERS  
Eric Baggesen, Senior Investment Officer – CalPERS  
Mary Hartman Morris, Investment Officer – CalPERS

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<sup>1</sup>Guidelines for Enhanced Disclosures to Assist Directors, Audit Committees, Shareowners and Investors, April 2009, <http://www.enhanceddisclosure.org/pdf/guidelines.pdf>.