



CalPERS

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May 29, 2009

J. Gordon Seymour, Secretary and General Counsel

Office of the Secretary

Public Company Accounting Oversight Board

1666 K Street N.W.

Washington, D.C. 20006-2803

RE: PCAOB Release No. 2009-002, Rulemaking Docket Matter No. 028

Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations

Dear Mr. Seymour:

I am writing you on behalf of the California Public Employees' Retirement System (CalPERS). CalPERS is the largest public pension fund, managing pension and health benefits for more than 1.6 million California public employees, retirees and their families. CalPERS manages approximately \$179.9 billion in assets.

We understand that through this rulemaking docket, the Public Company Accounting Oversight Board (Board) is evaluating its auditing standard on audit confirmation and is seeking public comment on the potential direction of a standards-setting project which could result in an amendment to AU sec. 330 or a new auditing standard that would supersede the current standard on audit confirmations.

As a long-term shareowner, CalPERS has a significant financial interest in seeking improvements in the integrity of financial reporting. The use of audit confirmations is a standard audit procedure which provides verification of the accuracy and existence of assets and liabilities of a company. Inherent in this audit procedure is the design and performance procedures to obtain sufficient, competent audit evidence from knowledgeable third parties outside the company in response to identified risks. We believe that confirmations are an important source of the evidence auditors obtain as part of an audit of a company's financial statements and in ensuring the integrity of the company's financial reporting.

CalPERS is supportive of the Board and its evaluation of its existing auditing standard on audit confirmations AU sec. 330, the Confirmation Process. We agree and believe the confirmation process may need amending or a new audit standard that would supersede this existing standard with advancement in technology and the structuring of complex revenue and unusual transactions and agreements.

**California Public Employees' Retirement System
Lincoln Plaza East - 400 Q Street, Suite E4800 - Sacramento, CA 95811**

There are numerous examples of frauds¹ which continue to highlight the need for solid audit confirmation procedures and process. With this in mind, investors like CalPERS view the Board's evaluation of confirmation as critical, timely and as underline base of the integrity of financial reporting. We offer the following comments:

Definition of confirmation and requirement to confirm:

CalPERS supports the expansion of the definition of confirmation contained in AU sec. 330 to include direct access to information held by a third party. We also agree with the requirement to confirm, that the audit standard establishes the presumption that confirmations must be done. We believe with the depth and advances in technology that direct online confirmations may strengthen the audit confirmation process. However, we agree with advances in technology there is a higher risk that technology may be used to provide fraudulent confirmations as well. We agree and support that the objective of the confirmation standard should be for the auditor to design and perform confirmation procedures to obtain sufficient, competent audit evidence from knowledgeable third parties outside the company in response to identified risks.

Reliability of confirmation responses:

CalPERS believes the audit confirmation process should allow the auditor flexibility in determining the receipt of confirmation other than traditional mailed responses such as responses processed through third-party service providers, direct online access to information by a third party, etc. with the caveat that the auditor consider the risk, objectivity and competence in developing the audit confirmation procedures. We believe the auditor should be required to address and determine the level of risk in the design of audit confirmation procedures. We suggest the Board consider the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Enterprise Risk Management – Integrated Framework be considered in developing the requirements of audit confirmations and process.

Expansion and control of audit confirmation process:

CalPERS supports the expansion of audit confirmations to request significant terms of unusual agreements or transactions, including complex or unusual revenue transactions because of the risk of fraud. We also believe that auditors should consider confirming other items if risk factors warrant this additional confirmation. CalPERS agrees that the auditor should consider the effects of a respondent's objectivity and freedom from bias in designing the confirmation request and evaluating the results, including determining whether other procedures are necessary. We also agree with the Board that auditors must maintain control over confirmations since unauthorized individuals may acquire access into the confirmation process. We believe the audit work papers should document the assessment and mitigating factors considered and used in developing audit confirmation procedures to address this risk.

¹ Parmalat fraud, 2003, one of the largest cash and investment confirmation fraud

Additional/Alternative requirements for disclaimers, restrictive language or the inability to receive a confirmation:

CalPERS continues to believe that audit confirmation procedures should require the auditor to perform alternative procedures for non-responses to positive confirmation requests and require the auditor to investigate exceptions. Although these may be time consuming procedures, CalPERS continues to believe that performing alternative procedures and investigating exceptions may result in the identification of previously unidentified risk of material misstatements, including previously unidentified fraud risk factors that require evaluation.

We support the Board identifying additional procedures that need to be performed for disclaimers, restrictive language or the inability to receive a confirmation. We believe these present a red-flag that needs to be addressed to ensure the accuracy, reliability and existence of the data presented in the financial statements.

Thank you for considering our comments. If you would like to discuss any of these points please do not hesitate to contact me at 916-795-4129.

Sincerely,



Mary Hartman Morris
Investment Officer, CalPERS Corporate Governance

cc: Eric Baggesen, Senior Investment Officer – Global Equity, CalPERS
Kenneth W. Marzion – Interim Chief Operations Investment Officer, CalPERS
Bill McGrew, Portfolio Manager – Corporate Governance, CalPERS
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