



California State Teachers'
Retirement System
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September 10, 2018

William D. Duhnke III, Chairman
Public Company Accounting Oversight Board
1616 K Street, NW
Washington, DC 2006-2803

Re: **2018-001, [PCAOB Draft Strategic Plan 2018-2022 Comment Request](#)**

Dear Chairman Duhnke:

I am writing on behalf of the California State Teachers' Retirement System (CalSTRS) in response to the Public Company Accounting Oversight Board's (PCAOB, Board) request for public comment on its Draft Five-Year Strategic Plan for 2018-2022 (Plan). Thank you for the opportunity to provide a long-term investor's perspective.

CalSTRS is the largest educator only pension fund in the world, with a global investment portfolio valued at approximately \$228 billion as of July 31, 2018.¹ CalSTRS' mission is to secure the financial future and sustain the trust of California's educators. We serve the investment and retirement interests of approximately 914,000 plan participants and their beneficiaries. CalSTRS is a mature public pension plan with long-term liabilities. With our global investment portfolio, comprised of more than fifty three percent (~\$120.7 billion) of our current fund's assets being invested in the public equity market, it is of the utmost importance to us that rules, regulations and auditing standards continue to evolve, with full support of the PCAOB's mission to protect investors through audit oversight. CalSTRS is grateful for the work done by the PCAOB that helps to promote investors' protections and in general support the direction of the PCAOB's 2018-2022 Strategic Plan. CalSTRS has a vested interest in ensuring the integrity, stability, and efficiency of the capital markets to pay out benefits to CalSTRS' beneficiaries, California teachers.

The current financial environment in changing degrees requires organizations to work inside financial frameworks with governance foundations of internal controls, performance measurements, and disclosures. Governance foundations, culture, and proper enforcement oversight are critical to promote trust in both the financial reporting process and auditing profession. We appreciate the Board's continued efforts to further the public interest in the preparation of informative, accurate, and independent audit reports as investors rely on auditors as financial reporting gatekeepers along with the PCAOB's role in quality oversight.

¹ CalSTRS Current Investment Portfolio for the period ending July 31, 2018.
<http://www.calstrs.com/current-investment-portfolio>

Business Implementation Plan and Measurement of Accomplishments

Overall, CalSTRS supports the four areas of strategic focus and the five goals outlined in the 2018-2022 Plan. We acknowledge the value of reaching beyond the walls of the PCAOB along with the importance of staff's critical input to the Plan. We propose the Strategic Plan should include a Business Plan and Accomplishments Report to further develop a robust understanding of how this overarching plan will be implemented. An annual business plan will help crystallize 1) how each objective would be accomplished; 2) what specific initiatives may be necessary to complete each objective; 3) what resources would be utilized; 4) the length of time it would take to complete each objective; 5) the current status of each initiative; 6) specific milestones to measure progress, as well as disclosing achievements or flags that may redirect resources. CalSTRS believes a Business Plan roadmap is critical to the execution of each goal and underlying objective. We believe an Accomplishments Report would provide pre-determined measurements, identifying milestone progress, and utilizing post-implementation reviews in order to ensure the Plan advances efficiently and effectively.

Third Party Assurance – Environmental Social and Governance Reporting - Non-GAAP Reporting

The Strategic Plan's goals and objectives should consider the importance of the role of the auditor in review of needed Environmental Social and Governance (ESG) reporting, and Non-GAAP disclosures within financial reporting. Although many view ESG disclosures as non-financial, CalSTRS considers this type of reporting critical to financial reporting and thus the need for the PCAOB to consider the role of audit firms in evaluating contingent liabilities and whether ESG reporting and Non-GAAP reporting should be more visible in the audit of financial reporting.

Audit Quality – Goal One

We are encouraged with the PCAOB's Plan emphasis on the need to further improve the quality of audit services. As a long-term investor, CalSTRS is very interested in the PCAOB's audit inspection process, audit quality, and the remediation of inspection deficiencies and findings. We recommend the Board consider the relevance and need to devote additional resources within the Strategic Plan to the inspections of the audit firms (The Big Four) that account for audits of U.S. issuers that represent ninety-eight percent of global market capitalization. CalSTRS acknowledges the need to continuously assess the audit inspection methodology process, refining risk-based selection processes, and agree with evaluating and adopting unique inspections as shared in your speech earlier this year. CalSTRS supports the importance of frequent and detailed communication on the nature of inspection findings and root causes analysis to better understand audit deficiencies prior to the issuance of an audit report and thus merit continued focus by the PCAOB and the audit firms. As an investor relying on the PCAOB to push for better audit quality, we encourage the Board to continue with the annual inspections of the Big Four audit firms.

Changing Environment, Emerging Technologies - Goal Two

We applaud the PCAOB Board's push for the AuditorSearch database and additional technical disclosures that help with investors' analytics and analysis in the investment process. The AuditorSearch database provides key information on engagement and secondary partners, as well as the amount of work performed by an audit firm other than the one signing the opinion. Investors like

CalSTRS also welcomes the changes in the expanded audit report which will include “Basis for Opinions” providing a clearer definition of both auditor and management responsibilities, while providing a high-level overview of what an audit entails. We appreciate the required information that includes the length of an auditor’s tenure, which will highlight the need for audit committees’ assessment of auditor independence and tendering of auditors after a specific period of time. Critical audit matters (CAMs) will bring attention and shine light on the more difficult aspects of the audit involving judgment or sensitivity to estimates. Nonetheless, we agree that innovation and improvement in technology, such as the recent mandate by the SEC of Inline XBRL for issuers, should be incorporated into the standard financial statement audit providing for improved analytical tools for auditors, inspections, and investors.

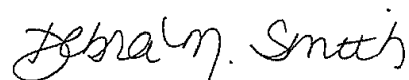
Cultivate effective and dynamic dialogue - Advisory Groups – Goal Three

CalSTRS proposes the PCAOB’s 2018-2022 Strategic Plan include the role and responsibility of advisory groups and their input as the Plan progresses. We recommend the PCAOB address within the Plan the Board’s goal to enhance transparency and accessibility through proactive stakeholder engagement, either through the current investors’ advisory group (IAG) or through another group or forum. CalSTRS believes a collection of seasoned investors would assist the board with unique knowledge and skills which will augment the knowledge and skills of the Standing Advisory Group (SAG). We see the importance of the IAG to evaluate the performance of the Plan, review/monitor/assess progress, serve as advocate for investors, gather input from/serve as a liaison with relevant constituencies, provide feedback to the organization from the investor community, provide technical expertise, provide an independent/unbiased sounding board, and assist staff in determining important activities. We suggest this group or the creation of another group/forum coordinate with the investors represented in the PCAOB’s Standing Advisory Group in providing insights to the Board in fulfilling its mission to protect investors.

CalSTRS appreciates the opportunity to provide comments on the PCAOB’s Strategic Plan and welcome additional opportunities to share CalSTRS perspective on the important role the PCAOB plays in the oversight of auditors as gate keepers of the integrity of financial reporting.

If you have any questions or would like to discuss this letter further, please do not hesitate to contact Mary Hartman Morris, Investment Officer at 916-414-7412, MMorris@CalSTRS.com or me at 916-414-7560, DSmith@CalSTRS.com.

Sincerely,



Debra Smith,
Chief Operating Investment Officer
California State Teachers’ Retirement System

Cc: PCAOB Board Members –

Kathleen M. Hamm, J. Robert Brown, Jr., James G. Kaiser, Duane M. DesParte